# BLUE
# WATER
# BRIDGE
# CANADA

## 2011-2012 to 2015-2016
## Corporate Plan Summary
## Summary of Operating Budget
## Summary of Capital Budget

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BLUE WATER
BRIDGE CANADA

Canada

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# *EXECUTIVE OVERVIEW*

The current fiscal year 2011 has witnessed the completion of the majority of work previously identified in the original master capital plan, highlighted by the completion of the $69 million Blue Water Bridge Corporate Centre (BWBCC formerly known as the CBA building) as well as the completion of eight other capital projects worth $19 million under the Federal Infrastructure Program (FIP).

BWBC is in the process of reassessing the remainder of the master capital plan due to the inclusion of some of those projects within the Federal Infrastructure Program (FIP) and due to the additional specifications added to the BWBCC building, coupled with reduced truck toll revenue and temporary cash constraints. A formal, independent study on potential ancillary revenue streams has been completed and will have some bearing on the development of the new master capital plan development process.

The development of the new master capital plan will require many meetings and involve input and research from management, external engineering and architectural consultants. This process may not be completed until December 2011. Thus, it is highly unlikely that additional capital investments in 2011/2012 beyond the planned $1.0 million will occur. Upon completion of the master plan process BWBC will keep Transport Canada, Treasury Board and Department of Finance proactively and fully informed. If in the event it was actually possible to expedite a major capital project to spend a material capital expenditure amount within the fiscal 2011/2012 year, an amended corporate plan document will be submitted to Transport Canada for approval.

It is possible that the Harper/Obama North American perimeter discussions might have a significant impact requiring adjustments to the master capital plan as we progress forward. At the very least, opportunities will be created for operational efficiencies and the sharing of capital infrastructure. However, these impacts are unknown at this time but can be injected into our general strategies and master capital plan at a later time.

BWBC keeps in close communication and contact with its trucking companies and successfully completed a comprehensive customer survey - a summary of the results are displayed later in this report. Customer demand continues to pressure us for better service through improved technologies and services.

The BWBCC is a LEED's (Leadership in Energy and Environmental Design) accredited, state-of-the-art, highly technological building which meets the Statement of Requirements (SOR) for the Canada Border Services Agency (CBSA), the Canada Food Inspection Agency (CFIA) and the commercial brokers. This is a building that will also provide additional job opportunities for our current complement of employees. While this technologically advanced building is a major component of our master capital plan it is also the centrepiece within our newly developed Integrated Environmental Sustainability Program approved by the Board of Directors.

Our current union contract expired November 30th, 2010. We are currently in negotiations with Public Service Alliance of Canada (PSAC). Our wage increase proposal will allow BWBC to satisfy the Treasury Board cost containment guidelines for 2011/2012 and 2012/2013 but will meet some resistance from the union at the negotiating table. We are hopeful that the overall package with some benefit enhancements will be enough to achieve a signed collective agreement.

To improve the employees' working environment and in order to meet the challenges we are currently facing and well into the future, we are developing an Employee Development Plan (EDP) which we believe will provide further security and job fulfillment for our existing employees. We are working towards a mutually beneficial arrangement within the confines of the Collective Agreement, to the benefit of everyone.

It is recognized that BWBC must continue to evolve in order to satisfy our existing customers. Two comprehensive surveys were undertaken this year. The first, an Employee Satisfaction Survey, was developed by an independent consultant and completed by the employees in September 2010. This was one of the initiatives recommended from the Mutual Respect Workshops conducted four years ago. The consultant assessed the results; produced a final report in January 2011, and; conducted sessions with the senior executive team, the management and supervisory group and; facilitated sessions with the entire employee/management group. Many constructive suggestions have resulted and plans are in place to maintain the momentum to ensure that we continue to strive to improve the working environment for all of our employees.

The second survey was conducted with our major customers, the trucking companies, with the purpose of determining why they cross or do not cross here and what BWBC can do to better serve them. The results have been used to further refine our marketing strategy.

With our new internal auditing firm – Ernst & Young - the Board of Directors conducted an Enterprise Risk Management workshop to identify and better understand the top 12 risks to BWBC. A short-and-long-term audit plan was developed in correlation to this workshop. A brief summary of these more specific risks and BWBC's strategies to mitigate them are added to the section that we have provided with each of our previous corporate plan documents.

The mitigation and resolution of cross-border security, efficiency and safety issues continues to challenge us. BWBC takes an aggressive and proactive approach with its government relations program to coordinate and/or meet with various local, provincial, state and national businesses and government organizations and agencies on both sides of the border. We have experienced the positive effects and results coming from the cooperation of all parties on both sides of the border. Our future success is tied directly with the expansion of the BWBC plaza to create the excess capacity expected from the widening of the Canadian and American highways, the latter of which is part of the original $586 million American expansion of the Port Huron plaza. Lack of funding on the U.S. side is a major concern with the public appetite for infrastructure stimulus waning. A considerably smaller, scaled back version is currently being considered.

BWBC will continue to expand its plaza and, within two to four years demolishing the "old" plaza buildings that have been replaced by the BWBCC. The highway 402 widening to be completed by the Ministry of Transportation of Ontario (MTO) by the summer of 2012, will result in improved efficiency on the Canadian side in coordination with the proposed work on the American side to improve its throughput capacity with a moderated or full expansion of its plaza and approaches.

All in all, BWBC remains optimistic that our efforts and those of our counterparts at MDOT will result in some successes down the road. This has been an exhilarating year and we feel well positioned to overcome the challenges ahead.

## *Convergence with International Financial Reporting Standards (IFRS)*

The BWBC IFRS transition plan is comprised of three phases: scoping, development and implementation. The scoping and development phases were completed in the 2008-2009 fiscal year and the implementation phase commenced in 2009-2010. During the 2010-2011 fiscal year, BWBC continues the implementation phase of the project, which includes:

- finalizing the implementation of remediation plans to address action items identified during the development phase;
- generating both the Canadian GAAP and IFRS balances (IFRS balances required for comparative figures for 2011/12 quarterly and annual IFRS financial statements);
- obtaining Audit Committee approval for IFRS accounting policy recommendations and IFRS 1 elections;
- quantifying and recording reconciliation adjustments between the Canadian GAAP and IFRS;
- preparing an opening IFRS Balance Sheet at September 1, 2010; and
- delivering IFRS awareness and technical training sessions to staff and members of BWBC Board of Directors and Audit Committee.

In December 2009, the Public Sector Accounting Board released an amendment to the "Introduction to Public Sector Accounting Standards" which clarifies the source of Generally Accepted Accounting Principles (GAAP) for government organizations like Blue Water Bridge Canada. Classified as an Other Government Organization, BWBC was required to assess whether International Financial Reporting Standards (IFRS) are the most appropriate basis of accounting for the organization or whether the Public Sector Accounting Handbook should be adopted. Management concluded that IFRS is the most appropriate basis of accounting.

The following table provides a summary of key activities remaining for the IFRS transition project:

| Year | Required Activities |
|---|---|
| 2011/12 | • Effective September 1, 2011, account for all transactions using IFRS.<br>• Prepare the first set of IFRS quarterly financial statements for the period ending November 30, 2011 and for each quarter going forward.<br>• Prepare the first annual set of IFRS financial statements for the year ending August 31, 2012.<br>• Monitor all proposed and continuing projects of the International Accounting Standards Board, giving consideration to any changes expected to impact BWBC.<br>• Continue to communicate changes and provide training as required. |

BWBC is receiving assistance with its IFRS conversion from the accounting firm PricewaterhouseCoopers (PwC). BWBC and PwC have kept the Office of the Auditor General (OAG) fully informed of its progress and identified the issues – componentization of assets and related depreciation – which are in the process of being addressed. BWBC is on schedule to have

comparative statements completed for fiscal year 2010/2011. There have not been any problems with the IFRS implementation.

A draft of the IFRS opening balance sheet adjustments has been prepared and it is apparent that retained earnings will be increased by a one-time adjustment of $44.4 million due to the fair value assessment for the bridge spans ($43 million); reinstatement of the long-term debt bond transaction costs ($0.8 million), and; recognition of the cumulative actuarial losses on the employee future benefits liability ($0.6 million).

At this time, BWBC prefers to not attempt to restate the 5-year forecast to an IFRS-based format within this corporate plan document until all IFRS issues have been resolved. BWBC will have IFRS fully implemented for the 2012/13 to 2016/17 Corporate Plan.

## *Capital Master Plan*

Although the initial plan anticipated substantial completion of the BWBCC by December 2010, the discovery of some fine particulate asbestos in the landfill exterior to the building created construction delays. Substantial completion was reached as of mid-April 2011 with the relocation date for office furniture, equipment and personnel planned for June 2011. The asbestos abatement program cost the project $2.8 million absorbing the project's contingency reserve. The total cost of the project will be $69 million.

This building will accommodate the commercial brokers and the administration of BWBC and it will fulfill and house the most up-to-date Statement of Requirements (SOR) of the Canadian Border Services Agency (CBSA). Once completed and operational, this will allow us to demolish the old building and begin the process of widening the plaza, adding fourteen additional primary inspection customs booths. It will also begin the process of redeveloping the plaza into a ***travel-through preferred place of destination*** for both trucks and car travelers with its increased capacity and improved customer service facilities.

The Federal Infrastructure Program (FIP) resulted in the expediting of eight construction components worth $20.0 million for which BWBC will receive up to $10.0 million. Originally, BWBC committed to undertaking $27 million of projects but time constraints and scheduling challenges reduced this to $20 million.

Nonetheless, of the projects completed, this program will improve the safety and efficiency of the bridge spans and plaza. Combined with the CBA Complex Building project, this "extreme makeover" and the future demolition of the existing administration building will increase our capacity to improve traffic flow and road safety, excluding any improvements on the American side. Once the Michigan-side completes their $586 million building project or its scaled-down version, BWBC will be well-positioned with its excess capacity to take advantage of any future increase in traffic. The construction on the U.S. side has commenced with the highway widening portion started in 2011 and with its anticipated completion by the end of 2012. It is not likely that the actual American plaza expansion will commence until 2015.

## BWBC Major Capital Spending – Past, Present and Future

Over a period spanning 15 years from 1997 to 2011, BWBC has spent $190 million on major capital projects. Cash generated from operations over the years, the proceeds remaining from the bond issue and funds received from the Federal Infrastructure Program have been 100% applied to these projects. Potentially up to another $40 to $50 million of projects are planned to construct the CBSA building for secondary inspection of cars; a new toll building, currency exchange

building and public washrooms. In essence, the total re-design and refurbishment of the BWBC plaza over this period is well timed to take advantage of the excess capacity required when our counterparts on the American side build their new facility.

**Major Construction and the Master Capital Plan - 20 Year Span**

| Year of Completion | Structure | | Cost ('000's) |
|---|---|---|---|
| | Major Construction and Master Plan - Completed Projects | | |
| 1997 | 2nd Bridge Span | $ | 59,885 |
| 1999 | 1st Bridge Span | $ | 26,921 |
| 2001 | Maintenance Building | $ | 3,029 |
| 2002 | Duty Free Store | $ | 5,282 |
| 2005 | Tourist Information Centre | $ | 3,984 |
| 2007 | Truck Ramp | $ | 11,724 |
| | Sub-Total | **$** | **110,825** |
| | Master Capital Plan - Projects in Progress | | |
| 2011 | CBA Building Complex | $ | 69,975 |
| 2011 | Federal Infrastructure Program | $ | 18,336 |
| | Funded portion by Federal government | $ | (9,168) |
| | Sub-Total | **$** | **79,143** |
| | Master Capital Plan - Future Projects | | |
| 2013-2015 | CBSA Building | | to be determined |
| 2015-2016 | Currency Exchange / Public Washrooms | | to be determined |
| 2016-2017 | Toll Building | | to be determined |
| | Sub-Total | **$** | - |
| | Major Construction Projects | **$** | **189,968** + |

The three future major projects listed above may cost $30-to-$40 million and it is not anticipated that the preliminary capital expenditures will occur during fiscal 2011/2012.

## The U.S. Mega Bridge Plaza Project

During December 2010, U.S. officials announced that due to federal funding constraints the original U.S. $586 million, 56-acre expansion project to rebuild the plaza and 2½ miles of the Interstate 69/94 expressway, will be scaled down to be only $110 million and a 16-acre expansion. Plans now call for the truck PILs to be located at grade level while car traffic will be processed through on the current above-grade level with twice the number of PIL booths.

In keeping with the Obama/Harper Continental Partnership initiative, to "transform the 49th parallel through cooperative arrangements on trade, security and management of the boundary line" and otherwise "smarten up" the border, BWBC has assisted MDOT with suggestions of layout design along with placing stacked or staggered booths to increase traffic throughput. With a lack of infrastructure funding on the U.S. side BWBC has offered to provide some brand new booths and/or funding to further reduce their costs. This will assist in improving efficiency at this international crossing.

One of the two major justifications for the U.S. $586 million project is the efficient movement of cross-border traffic, including the elimination of traffic backups. The other major justification is national security, a priority in the wake of the terror attacks of Sept. 11, 2001. Customs and Border Protection, an arm of the 9-year-old Department of Homeland Security, is expanding its

operations at every major border crossing. If built as originally intended, Port Huron's new plaza will include state-of-the-art inspection technology such as 21 radiation detectors, four portals for electronic scanning of a vehicle's contents and 20 docks where trucks can be unloaded and their content searched.

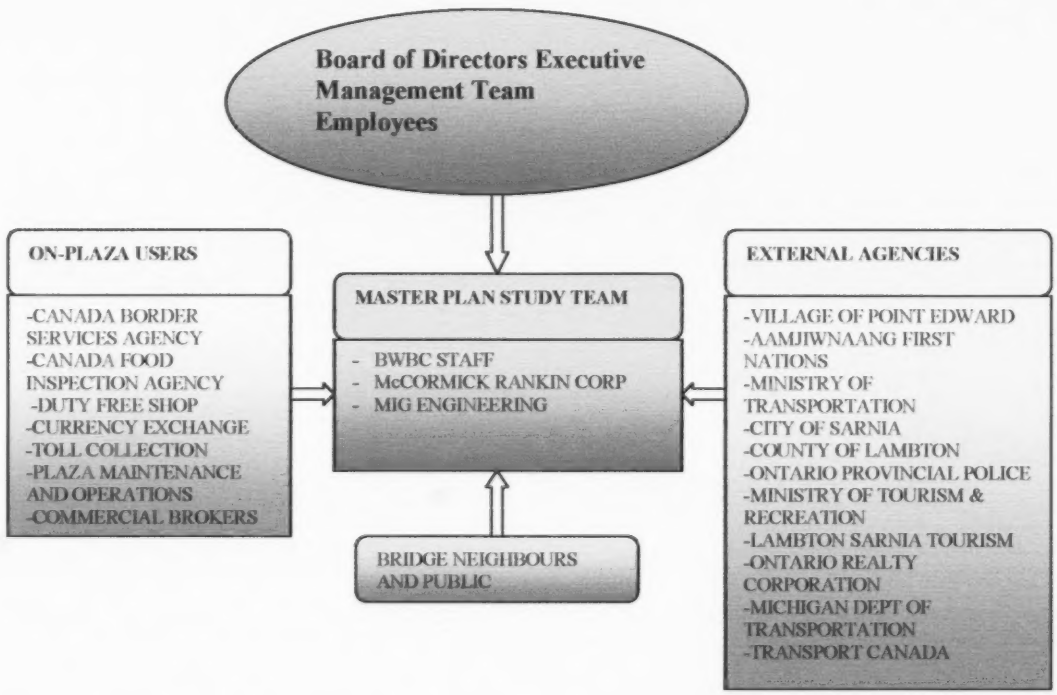
Construction has already started with the first phase devoted to work on the Interstate 69/94 corridor.

The existing Black River Bridge on the American side, which also has a dangerous traffic weave, is 64 feet wide and carries four lanes of traffic. The new span will be 200 feet wide with nine travel lanes as well as a 14-foot bike path attached to the south side of the structure. Other improvements along the 2.5-mile corridor include a replacement of one city interchange and the expansion of another; the installation of traffic roundabouts, and; construction of a new international Welcome Centre.

# *CORPORATE PROFILE*

The ***Blue Water Bridge Authority Act*** of 1964 established BWBC and authorized it to provide facilities for the carriage of highway traffic between Canada and the United States, defraying the costs of operating and maintaining the Canadian portion of the bridge with the ability to levy tolls. It also officially exempted BWBC from the assessment of income tax.

Over the course of its history, BWBC has evolved and nurtured its relationship with the plaza users, external agencies, employees and the surrounding communities. It is important to be not only a responsible corporate citizen but also to enhance our community profile and image along with the participation, input and buy-in of all the stakeholders.



# *HISTORIC MILESTONES*

- 1938 Construction of the original span was completed and was dedicated as "a new bond of friendship and commerce between two…nations of this continent". Funding for the Canadian portion of the bridge was provided by the Federal and provincial governments. The project was completed at a cost of USD $3.9 million.
- 1962 The ownership of the Canadian portion of the bridge span was transferred to the Blue Water Bridge Authority from the Federal Government at no cost.
- 1964 The *Blue Water Bridge Authority Act* provided the legislative authority to levy tolls in exchange for the operation, maintenance and construction of sufficient facilities to house bridge-related, government agencies.
- 1992 An international task force concluded the existing bridge was operating in excess of its design capacity and that a new bridge should be constructed. A joint venture was undertaken between the Authority and the Michigan Department of Transportation (MDOT).
- 1997 The second bridge was opened to traffic and the original (first) bridge was closed for rehabilitation. The cost of the Canadian side of the new bridge was approximately $65 million paid in whole by the Blue Water Bridge Authority through an operating line of credit.
- 1999 The original bridge was opened to traffic and in tandem with the second bridge provided three lanes of traffic capacity in each direction. The cost of the rehabilitation was $25 million and paid by the Bridge Authority through an operating line of credit.
- 2002 The Authority became a Schedule III, Part I parent Crown Corporation and does not receive appropriations. Refinancing of its construction debt originated from a credit facility provided by a Canadian chartered bank in the amount of a $110 million bond issuance through which prior and future major capital projects would be financed.
- 2007 In accordance with the Federal Identity Program requirements, the Minister of Transport, Infrastructure and Communities and the President of the Treasury Board agreed on an applied title: Blue Water Bridge Canada.
- 2009 Commencement of construction of the CBA Complex building and the widening of Highway 402 and the NEXUS bypass lane which significantly improves the safety and free flow of passage for NEXUS/FAST participants; within Sarnia/Point Edward commuters, and; reduces the occurrence and prolonged idling of trucks and cars.
- 2010 Joint Canadian/American committee formed to pursue governance options and operational efficiencies.
- 2011 Completion of the $69 million Blue Water Corporate Centre meeting the Standards of Requirements for CBSA, CFIA, BWBC and the commercial brokers.

# *Applicable Legislation*

Blue Water Bridge Canada (BWBC) was originally established as the Blue Water Bridge Authority by the *Blue Water Bridge Authority Act (Canada)* on May 21, 1964. On April 26, 2002 BWBC became a parent Crown Corporation, and as such, is listed under Schedule III, Part I of the *Financial Administration Act* and is not subject to the provisions of the *Income Tax Act.*

As required by the *Financial Administration Act,* BWBC must submit an annual corporate plan outlining its business, activities, investments, objectives, and the strategy to achieve such objectives for the relevant period. The corporate plan must also disclose if BWBC intends to borrow funds. The Governor-in-Council must approve such corporate plans and the Minister of Finance must approve all borrowing transactions. The *Financial Administration Act* (Canada)

also requires that BWBC prepare and file annual operating and capital budgets, each of which requires the approval of the Treasury Board on the recommendation of the Minister of Transport. BWBC is also obliged to prepare annual audited financial statements and submit these to the Minister of Transport.

The *Blue Water Bridge Authority Act* and the *Customs Act*, Section 6, require BWBC to provide, equip and maintain, free of charge, adequate buildings, accommodation or other facilities for the proper detention and examination of imported goods or for the proper search of persons by customs and immigration officers.

Pursuant to the *Blue Water Bridge Authority Act*, BWBC is limited to charging tolls which provide for current revenues in an amount sufficient to pay it's reasonable current costs, to establish prudent reserve funds, to provide or replenish sinking funds in respect of outstanding bonds, and to pay other expenses properly incurred by BWBC in its performance of its duties under the Act. The *Canada Transportation Act*, Sections [117-120] regulates the means of setting and publishing toll rates and provides that notice of an increase to a toll rate must be published at least 20 days before the effective date.

The *International Bridges and Tunnels Act* came into force in April 2007. International Bridges and Tunnels Regulations on maintenance and repair and operation came into force in February 2009. BWBC does not anticipate any significant implications nor material impacts on its operations or procedures.

BWBC is also required to comply with the *Official Languages Act* and with the *Federal Identity Program*.

# *FACILITIES*

## The Bridge

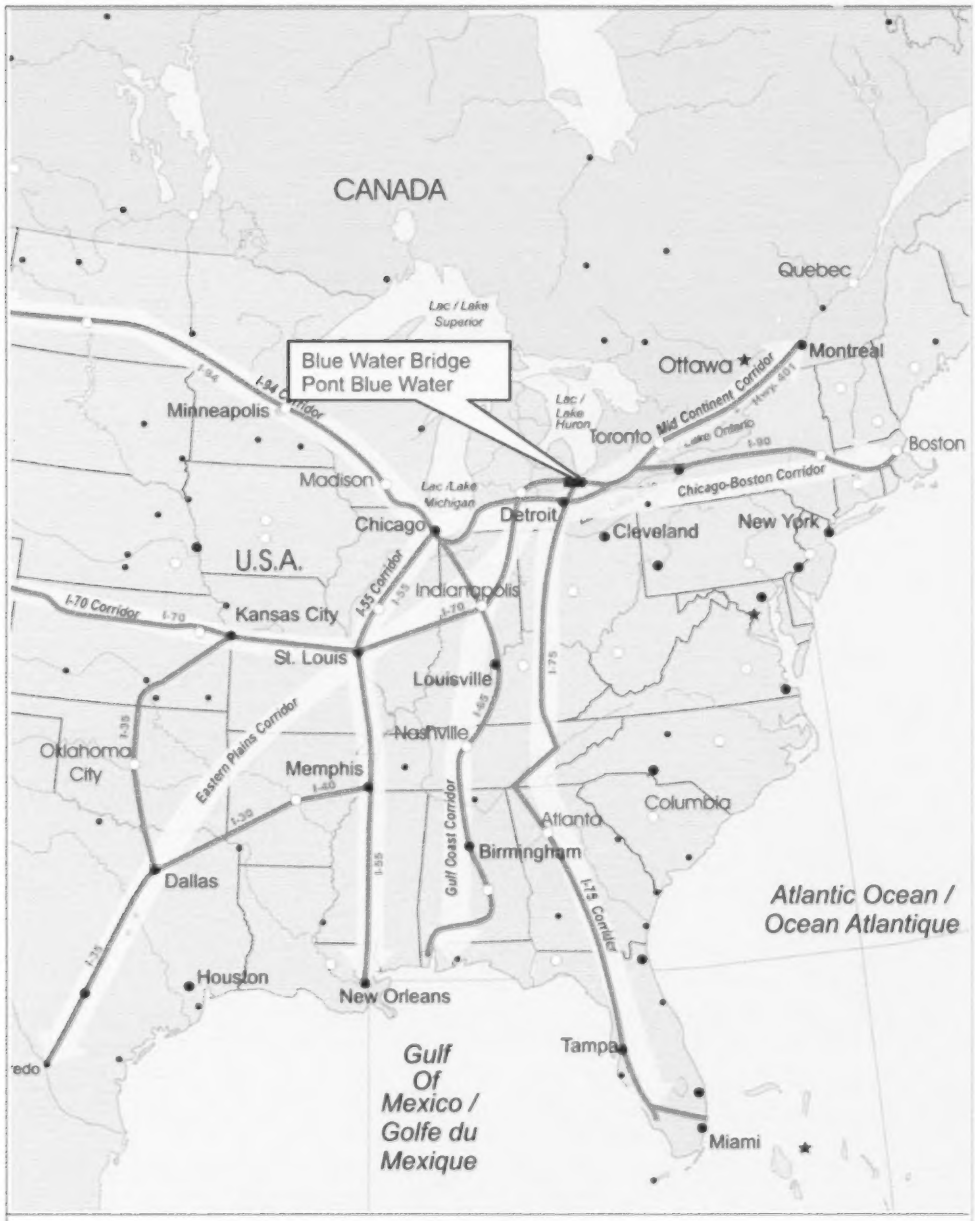
The Bridge includes the Canadian portion of two international toll bridges spanning the St. Clair River at the mouth of Lake Huron. The Canadian portion of the Bridge ends at the international border approximately halfway across the Bridge. The bridges connect the communities of Point Edward (Sarnia), Ontario and Port Huron, Michigan. Historically, BWBC and the Michigan Department of Transportation ("MDOT"), as operator of the US portion of the bridges, continue to enjoy a co-operative working relationship in the construction, rehabilitation, operation and maintenance of the Bridge. Officials from BWBC and MDOT meet regularly to discuss issues regarding the joint operation of the two bridges.

### Construction

The initial three-lane bridge construction was completed in 1938 with a main span across the St. Clair River of 875 feet, a navigational clearance above the river of 152 feet and an overall length of 6,534 feet. The original bridge underwent a two year rehabilitation completed in 1999 which is projected to extend its life expectancy an additional 50 years from the completion of construction. A new three-lane bridge with a main span of 922 feet, a navigational clearance above the river of 155 feet and an overall length of 6,109 feet was constructed and opened for traffic in 1997. The life expectancy of the new bridge is 75 years, at which point a major rehabilitation project will be required.

## Location

The Bridge connects Highway 402 in Ontario to I-94 and I-69 in Michigan, which provide south-westerly access to the following metropolitan areas: Detroit, Michigan; Indianapolis, Indiana; Chicago, Illinois, Madison, Wisconsin; Minneapolis, Minnesota; and St. Louis, Missouri. An overview of the location of the Bridge in relation to major trade routes is presented in the figure below: Blue Water Bridge – Major Trade Routes.




Blue Water Bridge - Major Trade Routes
Pont Blue Water - Principales routes de commerce

### The BWBC Facility

The bridge spans' underlying land and the buildings and other appurtenances on the land, as described below, are referred to collectively as the "Facility". The Facility is situated on 98 acres of land in the village of Point Edward (Sarnia), Ontario. The underlying land is owned by BWBC, and is encumbrance free. The new truck ramp facilitates and eases the convergence of trucks onto the 402 Highway. The plaza on the Facility (the "Canadian Plaza") is comprised of several buildings.

The main building complex is a series of connected two storey buildings, which house BWBC administration offices, Canada Border Services Agency, various customs brokers and a trucker's waiting area. Relocation to the new building will be made by CBSA, CFIA, the commercial brokers and BWBC administrative staff will occur April through June 2011. A new Maintenance facility was completed in 2001 and the new Duty Free Store in 2002. Other buildings located on the Canadian Plaza include a toll office, projects office, currency exchange and public washrooms. A tourism travel centre constructed in 2005, is located in a landscaped rest area just off of the Canadian Plaza. A generator building is also located on the Canadian Plaza. The generator provides emergency backup power for the entire Canadian Plaza in case of a local outage.

**First Nations Relationship**

Approximately 38.5 acres of the Facility's underlying land have been identified as being archaeologically sensitive. Portions of this acreage have been determined to be aboriginal burial sites within the meaning of the *Cemeteries Act* (Ontario), and the Aamjiwnaang First Nations, which is located within Sarnia, has assumed responsibility for the preservation of these aboriginal human remains. Accordingly, development and construction in these areas is undertaken very carefully and incorporates pre-construction archaeological investigations. Historically, BWBC and the Aamjiwnaang First Nations have maintained an excellent working relationship. This is evidenced by the successful and conflict-free construction and completion - along archaeologically sensitive land - of the second bridge span, the expansion of a staff parking lot, the completion of a new maintenance facility and the construction of a new Duty Free Store.

In addition, on June 21, 2002 BWBC and the Aamjiwnaang First Nations signed a Memorandum of Understanding (the "MOU") to record the shared vision, goals and objectives of the First Nations and BWBC with respect to First Nations heritage and the archaeological resources present at the Bridge site. BWBC has constructed a beautiful modern retail facility within the Tourist Information Centre called the Ojibwe Trading Centre and provided to the Aamjiwnaang rent-free to promote the sale of aboriginal crafts to the travelling public and the local community. BWBC and the Aamjiwnaang meet at least once a year to explore issues of mutual interest and flexibly respond to issues of the day or future challenges.

## THE BUSINESS OF BWBC

### Toll Revenues

The principal source of revenues for BWBC is tolls collected from westbound traffic crossing the Bridge into the United States. BWBC has the exclusive right to impose and collect tolls for westbound vehicular crossings. All revenue collected from westbound traffic belongs to BWBC. Tolls are collected for eastbound traffic on the American side by the Michigan Department of Transportation (MDOT). Revenue collected from eastbound traffic belongs to MDOT.

BWBC prepares annual expense and capital spending budgets. In addition, long-term cash flow forecasts are prepared and reviewed annually. If, after determining priority items, a potential cash shortfall is identified or a bond covenant is in danger of being breached, BWBC has the authority to increase the toll rates after posting the proposed changes at the toll booths for 20 days. These powers were granted under the *Canada Transportation Act (1996)*. Toll rates at other competing border crossing locations are periodically reviewed to ensure that BWBC remains competitive.

Based on our current corporate plan, even with the contemplated toll adjustment in September 2011, $10 million in additional long-term debt financing will be required commencing July 2011 to pay for BWBC's financial commitment for the Federal Infrastructure projects. Approval of a credit facility for borrowing up to $15 million for capital expenditures was approved by the Minister of Finance in the Fall 2010 for this purpose. With the depletion of the proceeds from the original bond issue and a modest capital expenditure budget until 2015/2016 (pending strategic decisions from the June 2011 master planning session), the annual cash generated will not provide enough funds to entertain any more than a $5 to $8-million project unless further debt financing is contemplated.

It is prudent to continue to plan regular toll adjustments of incremental amounts of a minimum of $0.25 per car or axle over the long-term. During fiscal 2010 MDOT raised its toll rate for the first time in 10 years and doubled its tolls with an increase of $1.50 per car or axle receiving a wave of negative publicity and traveller consternation. BWBC prefers to implement smaller increases over regular periods (ie. bi-annually or tri-annually) and these appear to be more palatable to the general public and trucking carriers. Historically MDOT and BWBC do not consult regarding proposed toll increases.

The most recent Canadian toll adjustment occurred in September 2008 which affected cash paying customers only, by increasing the toll rates by $0.25 per car and/or axle while not affecting prepaid tokens or prepaid trucking accounts. Prior to this rate hike there was a U.S. rate adjustment on November 1st, 2007 to respond to the strengthening of the Canadian dollar being at or close to par with the American dollar. This corporate plan has incorporated only one toll rate adjustment of $0.25 per car and/or truck axle to occur at the beginning of September 2011. However, as this date approaches, the necessity of implementing those adjustments will be reviewed and re-justified pending Board approval. Based on past experience and our competitive position with regard to other bridge crossings, these increases are not expected to affect traffic volume.

Tolls are collected by toll collectors and automatic coin machines ("ACM's") at the five toll booths located on the Canadian side of the Bridge. Passenger vehicles can pay in cash or with BWBC tokens. Commercial vehicles can pay in cash or through the use of a magnetic swipe card and a prepaid account via cheques or credit card.

The toll and accounting systems are fully integrated. BWBC completed a major accounting and toll system upgrade in November 1999. The first step in the process was the construction of a new centralized computer room in the administration building. The room houses the toll system, accounting and email servers. The computer room, administration building, maintenance building, toll plaza and toll lanes are connected with high speed fibre-optic lines. A systems upgrade to the toll software, automatic coin machines, lane controllers and toll server was completed in December 2002. Another system upgrade is planned in the near future but will be coordinated with the new system contemplated by the American side of the Bridge (MDOT). A

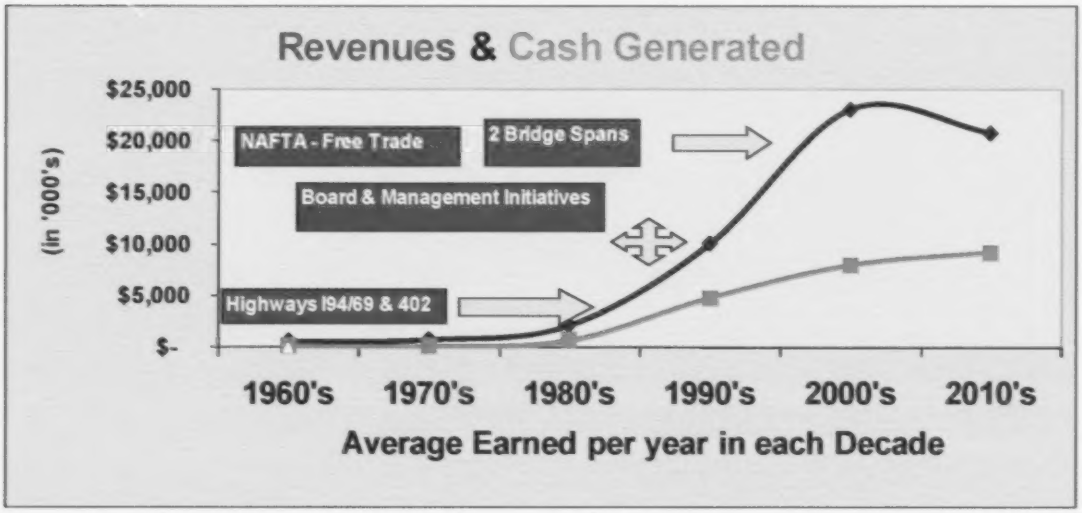
new IT Manager position was created June 2008 to manage the technological improvements being planned; future toll upgrades, and; the Business Continuity program.

## The Business of Traffic Volumes

Vehicular traffic demand over the Bridge has two principal components: commercial vehicles and passenger vehicles.

Historically, BWBC experienced significant increases in volume and revenues when:

- the Canadian and American highways 402 and I-94/69 interconnected;
- Free Trade between the two countries came into effect, and;
- The 2nd bridge span and 1st bridge span rehabilitation was complete.




Significant decreases were experienced subsequent to 9/11 with:

- Increased security inspections and Western Hemisphere Travel Initiative (WHTI) requirements;
- Frequent incidences of prolonged traffic congestion;
- The general public perception of traffic congestion even when it did not exist;
- Lack of resourcing for border control agencies on both sides of the border, subsequently addressed by the American side but not yet by the Canadian side;
- The strengthening of the Canadian dollar
- The severe recession during 2008/2009 and a tenuous economic recovery.

It is anticipated that due to the significant cost reductions in overhead which occurred from 2006 through to 2011, that cash generated from operations will increase moderately even though revenues are declining.

While we had anticipated an overall increase in traffic for 2011 due to the improvement in traffic during 2010, the current year 2011 (7 months year-to-date) has seen a 5.9% decline in truck traffic with a partially offsetting increase in car traffic by 7.6%. The best we can hope for is a stabilization of traffic trends with modest increase of 1% a year in the future. Significant increases in volume may not be anticipated through to 2016 and might first occur only when the Michigan side of the bridge plaza is redeveloped ***and*** there is a robust economic recovery.

*Commercial Vehicles*

Commercial vehicles, such as trucks and tractor-trailers, use the Bridge primarily to ship goods between Canada and the United States. Traffic volume from commercial vehicles is dependent on a number of factors, including the level of exports/imports between the two countries, which in turn depends on the levels of economic activity in North America generally as well as the relative strengths of the Canadian and U.S. currencies.

Since the interconnection of highways I-94/I69 and 402, the implementation of the *Canada-U.S. Free Trade Agreement* ("FTA") in 1989 and the *North America Free Trade Agreement* ("NAFTA") in 1994, the volume of traffic across the Canada-U.S. border has increased significantly. Based on statistics received from the U.S. Bureau of Transportation Statistics (BTS) for the period between January and September, 2008, the proportion of the major commodities flowing through the Blue Water Bridge at any time is typical of any year, per the table below.

The table below highlights the recovery of the most recent recession on the value of goods crossing the border into the United States from the BWBC border crossing. Based on the figures compiled by the U.S. Department of Transportation, trade exports crossing into Michigan from the Blue Water Bridge increased by 20.1% or almost $3.1 billion dollars during 2010. The table demonstrates the prominence of the exports from the auto industry and other mechanical manufacturing in this southwest region of Ontario.

| **Commodity Description**<br>*Value (in Millions of US Dollars)* | **Total 2009** | **Total 2010** | **% of Total** | **Increase (Decrease)** |
|---|---|---|---|---|
| Vehicles; other than railway or tramway rolling stock; and parts and accessories thereof | $ 2,579 | $ 3,284 | 18.0% | $ 705 |
| Nuclear reactors; boilers; machinery and mechanical appliances; parts thereof | 2,169 | 2,609 | 14.3% | 440 |
| Plastics and articles thereof | 890 | 1,080 | 5.9% | 190 |
| Special classification provisions | 851 | 1,006 | 5.6% | 155 |
| Electrical machinery and equipment and parts thereof; Sound recorders and reproducers | 737 | 802 | 4.8% | 65 |
| Aluminum and articles thereof | 492 | 657 | 3.2% | 165 |
| Rubber and articles thereof | 417 | 549 | 2.7% | 132 |
| Furniture; Bedding; mattress supports; cushions and similar stuffed furnishings; Lighting fittings | 450 | 529 | 3.0% | 79 |
| Iron and steel | 352 | 500 | 2.3% | 148 |
| Paper and paperboard; Articles of paper pulp; of paper or of paperboard | 463 | 450 | 3.0% | (13) |
| Articles of iron or steel | 352 | 442 | 2.3% | 90 |
| Inorganic chemicals; Organic or inorganic compounds of precious metals; of rare-earth metals | 173 | 373 | 1.1% | 200 |
| Mineral fuels; mineral oils and products of their distillation; Bituminous substances; Mineral waxes | 227 | 238 | 1.5% | 11 |
| Copper and articles thereof | 111 | 214 | 0.7% | 103 |
| Preparations of cereals; flour; starch or milk; Bakers' wares | 176 | 204 | 1.2% | 28 |
| Miscellaneous chemical products | 147 | 182 | 1.0% | 35 |
| Wood and articles of wood; Wood charcoal | 152 | 176 | 1.0% | 24 |
| Miscellaneous edible preparations | 162 | 164 | 1.1% | 2 |
| Aircraft; spacecraft; and parts thereof | 141 | 160 | 0.9% | 19 |
| Miscellaneous articles of base metal | 109 | 151 | 0.7% | 42 |
| Tanning or dyeing extracts; Tannins and their derivatives; Dyes; pigments and other coloring matter | 116 | 150 | 0.8% | 34 |
| Optical; photographic; cinematographic; measuring; checking; precision; medical instruments | 133 | 144 | 0.9% | 11 |
| Soap; organic surface-active agents; washing preparations; lubricating preparations; prepared waxes | 95 | 134 | 0.6% | 39 |
| Organic chemicals | 84 | 129 | 0.6% | 45 |
| Sugars and sugar confectionery | 121 | 124 | 0.8% | 3 |
| Articles of stone; plaster; cement; asbestos; mica or similar materials | 109 | 114 | 0.7% | 5 |
| Pharmaceutical products | 43 | 114 | 0.3% | 71 |
| Cocoa and cocoa preparations | 84 | 102 | 0.6% | 18 |
| All other commodity types (with increases or decreases >< $10 million) | 1,262 | 1,473 | 8.1% | 211 |
| **TOTAL** | **$15,206** | **$18,264** | 20.11% | $ 3,058 |

*SOURCE: U.S. Department of Transportation*

International trade traffic typically follows the most cost efficient route which is determined by both travel time and distance travelled. Westbound traffic over the Bridge enters Port Huron, Michigan and has direct access to major interstate freeways I-94 and I-69.

These two freeways link directly into the industrial heartland of Michigan, Ohio and Kentucky, and the mid-west states of Illinois, Indiana, Wisconsin, and Missouri and beyond. Eastbound traffic over the Bridge enters Point Edward/Sarnia and moves directly onto the four-lane divided Highway 402 and then onto Ontario's major east-west throughway, Highway 401. The Bridge is the most efficient route between Toronto and Chicago. The Bridge is also the most efficient route between Boston and Chicago and between Western Canada and Toronto/Montreal. In addition, the Bridge handles 80% of the "in-transits" crossing the Michigan-Ontario border. "In-transits" are trucks which take a short-cut through a foreign country and then return to their originating country solely for the sake of taking the most efficient route. Approximately 10% of all commercial traffic on the Bridge is "in transit". The Bridge is an essential economic link between Ontario and Michigan as well as to the economic corridor through the United States and southerly to Mexico.

As at fiscal 2010, compared to other Ontario border crossings, the Bridge currently ranks as the third busiest for total vehicles, is the second busiest for the number of commercial vehicle crossings and is the busiest live animal port of entry on the Canadian border. During fiscal 2010 there were approximately 4,029 (2009 - 3,683) commercial vehicles and 8,870 (2009 - 8,576) automobiles (two-way) crossing the bridge spans daily. On peak days, the count exceeds 6,000 for commercial vehicles and 9,000 for automobiles.

**Results of Trucking Survey – Why Do Trucks Cross Where They Do?**

As part of our overall marketing strategy, during fiscal 2011 BWBC conducted a formal trucking survey. While we have always known that the predominant reason is "destination" related (ie. shortest distance/time between travel points), we wanted to get a sense of what is important to them when they cross any international bridge and what they appreciate about BWBC's thoroughfare. Of the 99 truck carrier companies that responded to the survey their summarized response as to why they cross where they do is as indicated below:

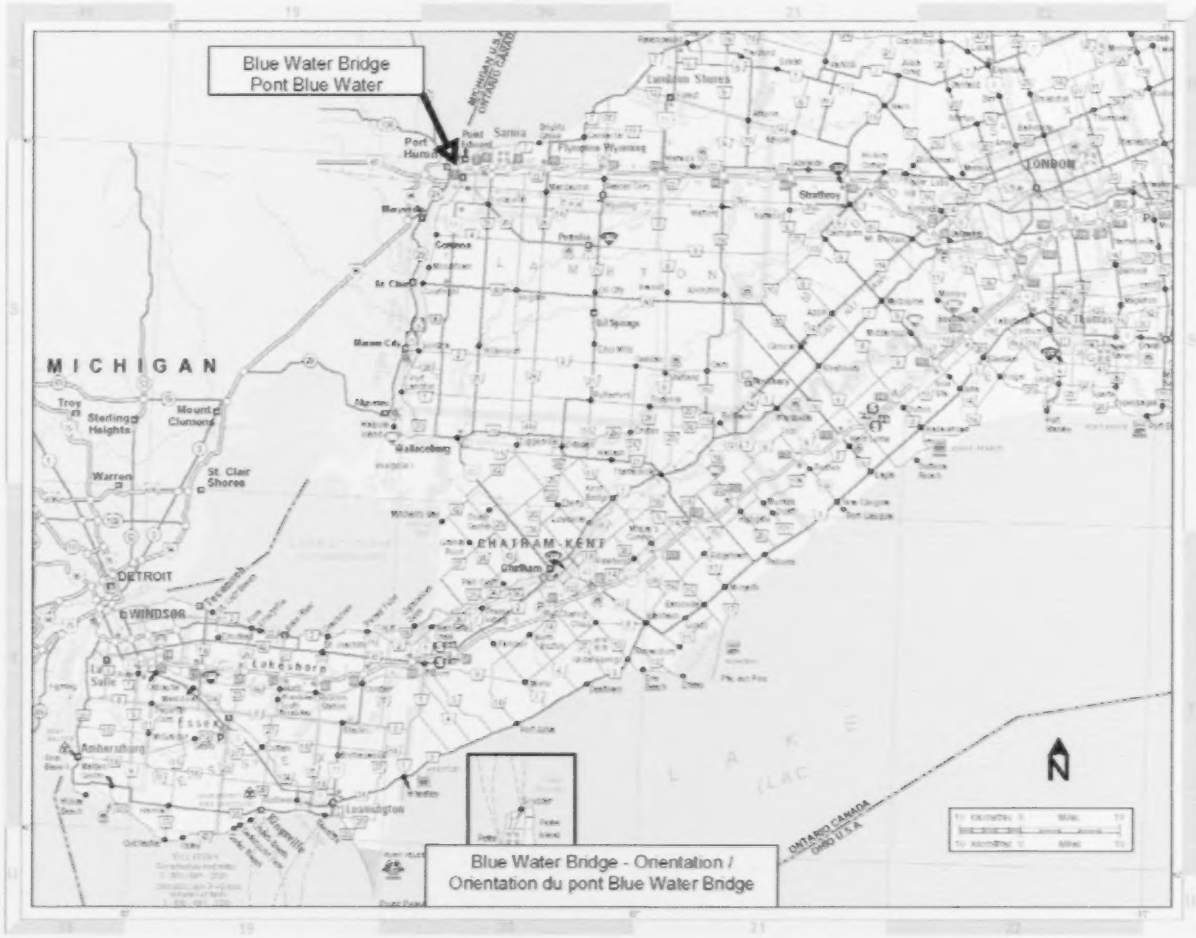
- Most direct route 71%
- Pre-paid Accounts 34%
- Shorter Wait Times 30%
- Competitive toll rates 20%
- Other (Hazmat, Wide Load Capability, etc...) 20%

One of the questions asked was "Overall, how satisfied are you with your fleet's experience in crossing at the Blue Water Bridge?" The results were:

- Very Unsatisfied 20%
- Unsatisfied 1%
- Somewhat Satisfied 16%
- Very Satisfied 51%
- Extremely Satisfied 12%

To maintain the momentum generated from this survey, BWBC will enhance its marketing strategy and has set a benchmark for improvement to reduce the "unsatisfied" categories from 21% to 15%. In addition to the overall marketing strategy, BWBC will immediately develop a commercial e-newsletter (e-mailed, Facebook, Web Site) to educate and inform the public as to

BWBC's strategic location, especially for the long-distance haul market. This newsletter will identify the advantages of having a prepaid toll account and it will have dedicated sections identifying tips on how to make one's crossing more efficient. BWBC will "twitter" to inform the public of the average crossing times being experienced real time. BWBC will also share data and results with MDOT, CBP and CBSA to identify and address wait times, prepaid account issues and EZ Pass and to encourage the agencies to ensure that trucks are given priority during periods of heavy volumes. Attendance at trucks shows and community events will continue to emphasize our services and competitive toll rates. Personal contact with trucking company representatives will continue in the form of follow-up phone calls with new and closed prepaid accounts and attendance at Ontario Trucking Association (OTA) (annual board meeting and convention).




*Passenger Vehicles*

Passenger vehicles, which use the Bridge, such as automobiles, motorcycles, buses and recreational vehicles, consist generally of tourists, cross-border shoppers and commuters. Traffic volume from passenger vehicles depends on a variety of factors including the demand for cross-border shopping, which varies according to gas prices and consumers' perception of the strength of the Canadian and U.S. currencies. Traffic volumes have also been affected by terrorist alerts and recent public health warnings.

### Lease Revenues

The primary source of lease revenue is derived from a lease agreement with the Blue Water Bridge Duty Free Shop Inc., a private operator of the Duty Free Store (DFS). The lease payment is based on a fixed charge for recovery of the capital cost of the DFS building plus a percent of revenue.

To facilitate the processing of customs paperwork for commercial vehicles, BWBC has provided rental office facilities on-site for customs brokers. There are currently 14 companies holding rental leases with BWBC.

## Primary Competition

As the third busiest U.S.-Canadian border crossing, the Bridge provides an efficient trade gateway between Canada and the United States. There are alternatives to the Blue Water Bridge; however, other than the Windsor's Ambassador Bridge, none is considered by BWBC to be a major competitor.

### *CN Rail Tunnel*

The Canadian National St. Clair Rail Tunnel crosses the St. Clair River in Sarnia. It was recently expanded to allow additional vertical clearance for trains, and has thereby increased its ability to carry larger loads. The tunnel services a different market than Blue Water Bridge. CN's largest operation is at the Port Huron, Michigan/Sarnia, Ontario crossing at which they operate nine trains per day in each direction.

The trains using the tunnel principally carry long-distance commodities (grain, coal, etc.) and finished goods (container shipments from Europe, cars, etc.) Trucks, because they can reach a broader market, including smaller geographic centres, more effectively than trains, are better at handling "just in time" deliveries, a major requirement of the automobile assembly industry. A significant portion of this industry is located in the trade corridor serviced by the Bridge. Seventy percent of U.S./Canada trade is carried by truck and 20% of U.S./Canada trade is carried by rail. Both volumes have been increasing but the ratio has remained relatively constant.

### *Ambassador Bridge*

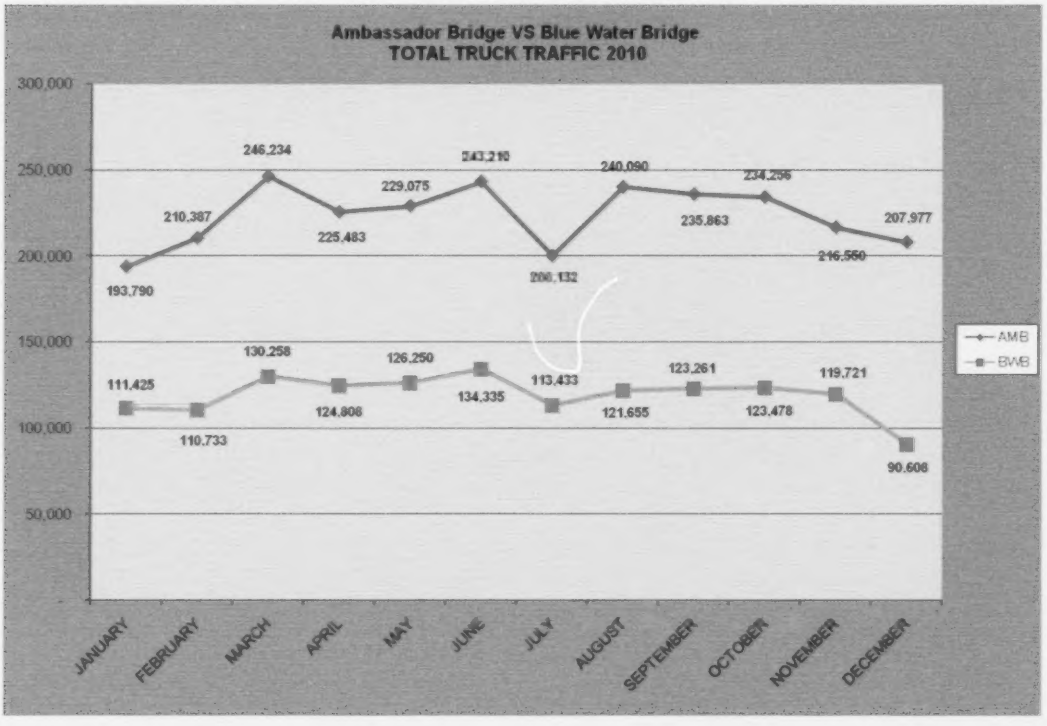
The Ambassador Bridge is a privately owned bridge located in Windsor, Ontario and crossing into Detroit, Michigan. The Blue Water Bridge and the Ambassador Bridge compete for toll revenue, which is derived from businesses located in the Detroit area. Where the Ambassador Bridge is situated, it services somewhat different trade routes than the Bridge. Traffic using the Ambassador Bridge is more likely to be very localized and destined for Detroit, southern Michigan, Ohio, and Tennessee and beyond. The Ambassador Bridge provides westbound access to I-94 and I-75 and eastbound access to the 401 Highway.

For passenger vehicle traffic, the BWBC toll rates are 36.8% or $3.50 Canadian lower than the Ambassador Bridge. This route involves numerous stops and starts and, compared to the Blue Water Bridge crossing, adds approximately 20 minutes of driving time before reaching a major highway.

The Ambassador Bridge, as it is a for-profit operation, generally has higher toll rates than the Blue Water Bridge. However, for commercial vehicles, because it charges customers based on the weight of the trucks, some commercial vehicles which might otherwise use the Bridge choose

to use the Ambassador Bridge when they are without a load, as the toll charges for an empty vehicle will be less than at the Bridge which charges on a per axle basis. BWBC believes that such diversion is not a significant source of lost revenue, as other factors, such as ultimate destination and ease of crossing will normally outweigh toll charges when vehicle drivers make a border crossing decision.

The Ambassador Bridge has received some criticism for the differential between Canadian and U.S. toll rates even though both currencies have been at par value with each other for a considerable period of time.




*Detroit- Windsor International Crossing (DRIC) Study*

Both the U.S. and Canadian Governments are planning to allow for the construction of a new bridge crossing in the Detroit-Windsor area not far from the Ambassador Bridge. The environmental assessment study is complete and has received approval from both sides of the border. The recent congressional and state elections during the Fall 2010 which elected a new Michigan governor and some new state legislators has delayed the process for approving the DRIC project.

The Detroit River International Crossing Study Travel Demand Model Update – commissioned by the federal and state/provincial governments on both sides of the border - does not anticipate any significant impacts to its revenue stream once the new crossing is operational. Based upon information contained in the DRIC study the new crossing would have a greater impact on the traffic and revenue of the existing crossings in the Detroit Windsor area than on the Blue Water Bridge. BWBC continues to monitor these studies closely.

*Detroit-Windsor Tunnel*

The Detroit-Windsor Tunnel, which is jointly owned by the cities of Windsor and Detroit, is only one of two vehicular-only international subaqueous border crossings in the world. It was originally designed with limited queuing space on either plaza whereby overflow traffic would be held within the underground/underwater tube itself. However, since 9/11, the Windsor-Detroit Tunnel Corporation prohibits the queuing of vehicles in the Tunnel for safety and security reasons. As a result 250+ cars that would normally queue in the Tunnel now overflow onto city streets.

The Tunnel is not necessarily considered to be a direct competitor because 97% of the traffic which uses that facility is considered as commuter-based which has an origin and destination within and between the Detroit and Windsor areas.

*Toll Rates across Ontario Border Crossings:*

**Toll Rates Comparative - Passenger Vehicles - Sarnia & Windsor-Detroit Locations**

| | Return (2-way) trips | Date of Increase | $ Cdn | $ U.S. |
|---|---|---|---|---|
| | Ambassador Bridge | 1-Feb-09 | 9.50 | 8.00 |
| | Detroit-Windsor Tunnel | 3-Nov-10 | 9.25 | 8.00 |
| | *Blue Water Bridge* | *1-Sep-09* | *6.00* | *6.00* |
| * | Lewiston-Queenston Bridge | 1-Feb-11 | 3.25 | 3.25 |
| * | Rainbow Bridge | 1-Feb-11 | 3.25 | 3.25 |
| * | Whirlpool Rapids Bridge (NEXUS) | 1-Feb-11 | 3.25 | 3.25 |
| | Peace Bridge | 1-Jul-10 | 3.00 | 3.00 |
| | Seaway International Bridge | 20-Dec-10 | 3.25 | 3.25 |
| | Sault St. Marie Bridge | 1-Apr-11 | 3.00 | 3.00 |
| | Thousand Islands Bridge | 24-Apr-10 | 2.50 | 2.50 |

* Niagara Falls Bridge Commission

**Toll Rates Comparative - Commercial Vehicles (Trucks) - Major Locations - Toll Covers Both Directions**

| Location | Explanations | (based on 5 Axles) $ Cdn | $ U.S. |
|---|---|---|---|
| Ambassador Bridge | 0 - 38,000 lbs | **16.25** | **13.75** |
| (one-way toll) | 28,001 - 56,000 lbs | **18.75** | **16.25** |
| | 56,001 - 145,000 lbs | **26.25** | **22.50** |
| Peace Bridge | Covers both directions | **28.00** | **28.00** |
| | E-Z Pass | | **25.20** |
| Lewiston-Queenston Bridge | | **18.75** | **18.50** |
| Sault Ste. Marie Bridge | | **20.30** | **17.50** |
| Thousand Islands | | **19.50** | **19.50** |
| Seaway International | | **15.25** | **15.25** |
| *Blue Water Bridge Canada* | *one-way toll* | *16.25* | *16.25* |
| Blue Water Bridge MDOT | one-way toll | **16.25** | **16.25** |
| | Both Directions | **32.50** | **32.50** |

(Note: For the Blue Water Bridge spans, tolls are collected on both the U.S. and Canadian sides.)

## Operations

The Facility is operated in accordance with the standards and procedures established by BWBC to address, among other things, emergency response, parking and traffic control, transportation of goods across the Bridge, security and communication.

BWBC owns all the equipment to operate the Facility and employs its own competent trained staff to perform the daily operations of the Facility. BWBC staff are internally trained in a number of specific programs including WHMIS (Workplace Hazardous Materials Information System), CPR, First Aid, Fire Prevention, Transportation of Dangerous Goods, Traffic Control and Working in Confined Spaces. These training courses, along with refresher courses, are provided to BWBC employees on a regularly scheduled basis. In addition, BWBC periodically hires outside consulting firms to conduct reviews of the operations of the Facility.

BWBC currently has a staff of 68 (50 full-time and 18 part-time) equivalent to the prior year. The organization has eight departments: Accounting, Administration, IT, Currency Exchange, Janitorial, Maintenance, Project Management and Tolls. The Toll department is the largest with 24 employees.

In March 2007, the Currency Exchange, Maintenance, Janitorial and Tolls non-salaried employees joined the PSAC union, disbanding the Blue Water Bridge Employees Association. A new collective agreement was signed November 2007, currently in effect until November 2010. Negotiations are continuing through to the summer of 2011 for a revised collective agreement.

### Insurance

BWBC maintains property, general liability and errors and omission insurance coverage which it believes is adequate with regard to its business and activities. The Bridge maintains various insurance policies, such as direct damage on bridge structures, use and occupancy, property of every description, commercial general liability, automobile/trucks, umbrella liability, crime, directors and officers and builders risk as required.

For fiscal 2010/2011 the Canadian halves of the two bridge spans will be covered for $153.7 million of direct damage with a basic $500,000 deductible (except for earthquakes where the deductible is 3% of value insured with a minimum deductible of $500,000). Business interruption coverage provides approximately three years of lost revenue (with a 7 day waiting period). It is anticipated that a major reconstruction could be completed in that time frame. The policies contain an exclusion clause for damages caused by acts of terrorism.

### The International Bridges and Tunnels Act

With the passage of the *International Bridges and Tunnels Act and its Regulations* there has been minimal impact due to our proactive maintenance program and security initiatives. Over the years, our bridge spans have been inspected on an annual basis and the inspection reports sent directly to Public Works (PWGSC) as directed by Transport Canada. Over the past eight years, three security assessments have been conducted at the bridge facilities and millions of dollars have been spent since 9/11 on various physical enhancements to improve the safety and security of the bridges and plaza area such as additional fencing, landscaping berms, security cameras and fall arrest systems. As the Master Capital Plan unfolds, additional safety, security and efficiency improvements are inherent in the multiple major projects undertaken, supported by extensive independent consultant and managerial studies. Historically, BWBC has always acted and, will continue to do so, in accordance to the directives and regulations as set out by the Minister of

Transport, through the Governor in Council, concerning the safety, security and efficiency of this bridge crossing. We will seek Governor in Council approval for transactions that result in changes in ownership or operation or alterations of the Bridge.

## BWBC ENVIRONMENTAL STATEMENT

BWBC has a legal obligation to ensure that regulatory requirements for all environmental material impacts are complied with under Canadian federal and provincial law. BWBC has in place standard operational procedures for emergencies and evacuations for all buildings, structures and plaza adhering to applicable statutes such as the *Environmental Assessment Act* (Ontario), the *Canadian Environmental Protection Act* (Canada), the *Navigable Water Protection Act* (Canada), and the Canada Labour Code. BWBC's storm water management plan includes a Ministry of Environment and Energy Certificate of Approval for the storm water holding pond with an amendment to include a containment spill compartment (*Water Resources Act* (Ontario)). All capital projects are subject to an environmental and archaeological assessment pre-design where applicable statutes apply. The new CBA Complex building to be completed by 2011 will be accredited for LEED's (Leadership in Energy & Environmental Design) certification. The tenants of the building have been provided with an "Environmental Improvement Guideline Policy for Environmental Sustainability" to guide all of us to ensure that our environmental footprint is minimized as much as possible well into the future.

BWBC is committed to a path of environmental sustainability. This means reducing our environmental footprint, promoting environmentally responsible business decisions, and providing environmentally responsible development and services. We believe that fulfilling our goals in these areas will lead to short and long term benefits for our plaza employees, customers, local communities and environment in which we live and conduct business.

We have been leaders in environmental management in our sector for many years. While we are proud of our past and current activities, we can – and will – do better. A formal program and policy has been drafted and introduced to the Board of Directors. With the completion of Blue Water Bridge Corporate Centre the proposed program will be reviewed, refined and formalized into a definitive program. This BWBC Environmental Plan sets out our corporate environmental policy, priorities and objectives. In the coming months and years, we will continue to work hard to develop and implement the necessary programs, policies, procedures and guidelines to support our commitment to environmental sustainability.

### CONCEPT for ENVIRONMENTAL POLICY

The following elements will guide environmental initiatives at BWBC:

- ***Environmental Footprint Reduction***: BWBC will pro-actively apply sound environmental practices to internal operations and purchasing decisions. We will seek ways to minimize our consumption of resources, including energy, paper and water, and our generation of waste and emissions. We will help create opportunities for our tenants, customers and employees to do the same.

- ***Responsible Business***: BWBC will develop, maintain, and communicate effective policies, procedures, standards and guidelines for our business decisions, to address environmental issues and risk management to BWBC, its customers and its other stakeholders.

- ***Employee Involvement:*** BWBC will offer environmental education and tools to our employees to enable them to act in an environmentally responsible manner and support our company's

objectives. We will also provide our employees opportunities to become personally engaged in environmental sustainability initiatives that are important to our business.

- ***Compliance***: BWBC will responsibly manage all aspects of our business to ensure environmental laws and recognized standards are met or exceeded. We will monitor compliance with our own policies, procedures, and standards.

- ***Reporting and Transparency***: BWBC will report regularly on our key environmental performance indicators. We will continue to improve our system for monitoring, measuring and transparent reporting of our performance relative to our targets, priorities and objectives.

- ***Partnership***: BWBC will establish and maintain productive partnerships with experts and stakeholders to ensure that we remain informed about relevant concerns and issues and are well-positioned to manage environmental risks and opportunities.

# *ORGANIZATIONAL OVERVIEW*

BWBC is governed by a Board of Directors that is responsible for the affairs of the corporation and ensures the proper delivery of public policy on behalf of the Government of Canada. It is comprised of a chairperson and three directors, appointed by the Governor-in-Council.

**ROLES AND RESPONSIBILITES OF DIRECTORS**

The primary role of the Board is to provide oversight of current activities and to set policies intended to ensure long term success of Blue Water Bridge Canada. In exercising their stewardship and fiduciary responsibilities, Directors are expected to exercise judgment in several areas including the establishment, approval and monitoring of Blue Water Bridge Canada's strategic direction, approval and monitoring of financial objectives, plans and internal controls, safeguarding BWBC's assets and reporting to the government of Canada.

The Board of Directors will provide direction to senior management in the development of long-term strategy for BWBC. Annually, the Board of Directors will review the strategic plan and oversee the strategic initiatives. The Board of Directors will involve itself in strategic planning and the monitoring of BWBC's performance against its strategic plan.

The Board will be responsible for oversight of the reliability and integrity of BWBC's financial reporting and will review the accounting principles management has followed to provide accurate and complete financial reports, in compliance with all legislated requirements. The Board of Directors will also oversee the public disclosure of BWBC's financial reports, according to all legislated requirements so as to promote transparency and accountability.

The Board of Directors will review management's integrated risk management policies, control systems and practices that have been put in place to manage key business and financial risks identified by management.

BWBC also has an Audit Committee. The Audit Committee consists of all four members of the Board of Directors. The Chair of the Audit Committee will be the Vice Chair of the Board. Elections for Vice Chair/Chair of Audit Committee will be held annually in August.

## ROLE OF THE AUDIT COMMITTEE AS PRESCRIBED BY THE *FINANCIAL ADMINISTRATION ACT*

The audit committee of a parent Crown Corporation shall
(a) review and advise the board of directors with respect to the financial statements that are to be included in the annual report of the corporation;

(b) oversee any internal audit of the corporation;

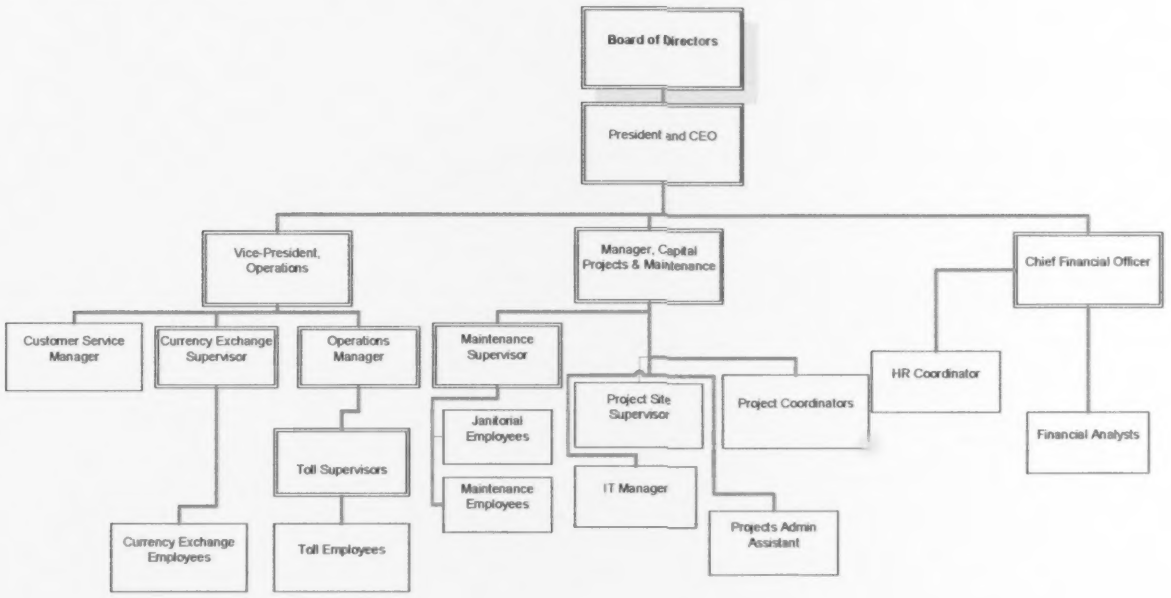
(c) review and advise the board of directors with respect to the annual auditor's report of the corporation;

(d) in the case of a corporation undergoing a special examination, review and advise the board of directors with respect to the plan and reports;

(e) review and advise the board of directors with respect to the Corporation's employee pension plan; and

(f) perform such other functions as are assigned to it by the board of directors or the charter or by-laws of the corporation.

## Corporate Organization Chart




## ETHICAL BEHAVIOUR AND VALUES

Blue Water Bridge Canada is committed to providing a work environment that is characterized by mutual respect and free from discrimination and harassment. Respect for the individual is the foundation for cooperation and understanding at the Blue Water Bridge Canada, whether on premises or off, during working hours or not, and including all telephone, electronic and written communications. Policies exist with respect to "Employees Code of Ethics and Conduct" and

"Mutual Respect: Towards the Discrimination and Harassment free Workplace". All employees have attended mutual respect training.

**AUDITS**

A special examination was completed in fiscal 2007/2008. The most recent internal audit was completed during the Fall of 2010. Recommendations from both audits are routinely incorporated into the strategic objectives for the corporate plan if they have not been implemented. For those recommendations not yet implemented, they are identified in the 2009-2010 and 2010-2011 strategic objectives.

Of the seven original recommendations from the special examination there remain only two policies to implement which continue to be identified in our strategic objectives but will be completed this 2011 calendar year:

- Formal contracting policies and procedures
- Development of an environmental policy

## Living Our Mission and Vision Statements

The Board established, and management embraced and enacted the mission and vision statements established in 2008.

***Mission:*** *"To make your gateway experience safe, efficient and enjoyable"*

Recognizing the importance of setting a definitive course for the future, the board and management adopted the following vision statement, to reflect the organization's intended standing in three to five years:

***Vision:*** *"To be recognized by our customers as an essential part of their travel experience"*

***Values:*** *"BWBC values effective team work, delivering valued service and continuous improvement."*

Our values are principles which we strongly believe in, and which guide our thinking and actions. They are standards against which we judge ourselves. There are three core values:

| BWBC values... | |
|---|---|
| **effective team working** | We contribute and collaborate effectively within and across our teams. |
| **delivering valued service** | We take pride in providing a professional service which meets the needs of our clients. |
| **continuous improvement** | We continuously develop and improve our services in line with our vision, mission and goals. |

For each of the three values, there are a number of "example behaviours", which illustrate what it is like to live up to those values:

**Effective team working:** *"We contribute and collaborate effectively within and across our teams."*

**Delivering valued service:** "*We take pride in providing a professional service which meets the needs of our clients.*"

**Continuous improvement:** "*We continuously develop and improve our services in line with our vision, mission and goals.*"

**Honouring Our Gateway Role**
*"We will manage ourselves, our properties and assets in a manner that reflects positively on the citizens of Lambton County, Ontario and Canada."*

**Customer-centric Services**
*"We will centre our business clearly on the needs and preferences of our customers."*

**Providing a Personalized Touch**
*"Our employees will be knowledgeable, proficient empowered and properly equipped to provide a premium-quality service in every area of our operations that consistently meets or exceeds the expectations of our customers."*

**Sustaining Robust Partnerships**
*"We will collaborate creatively with others who share our vision and values of quality customer service and community betterment."*

**Creating Hallmark Facilities**
*"Our facilities will be planned, developed and maintained using innovative and progressive designs, technology and management systems that will assist us in conducting our business with maximum competence and pride, while having minimum impact on our environment."*

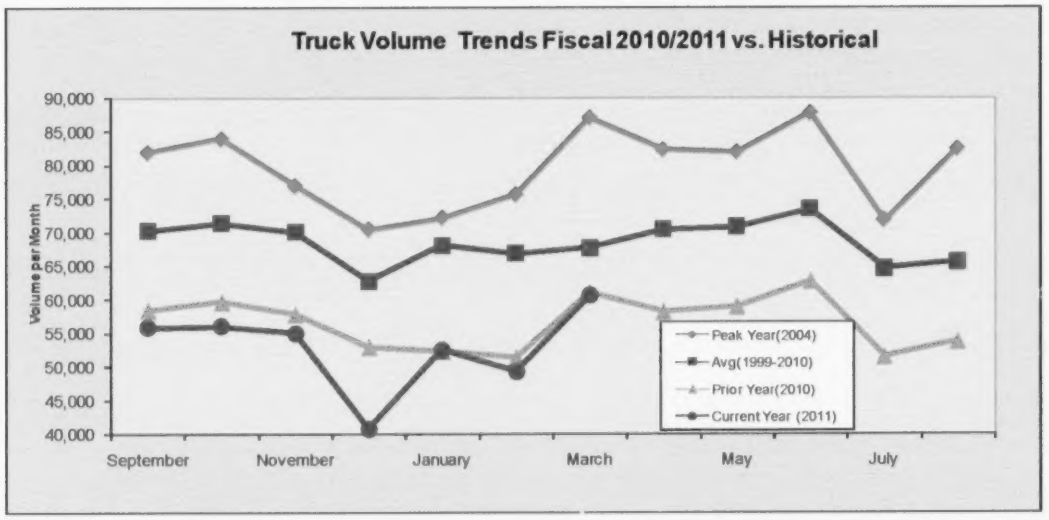
## Financial Experiences in Fiscal 2010/2011 with previously Forecasted Events

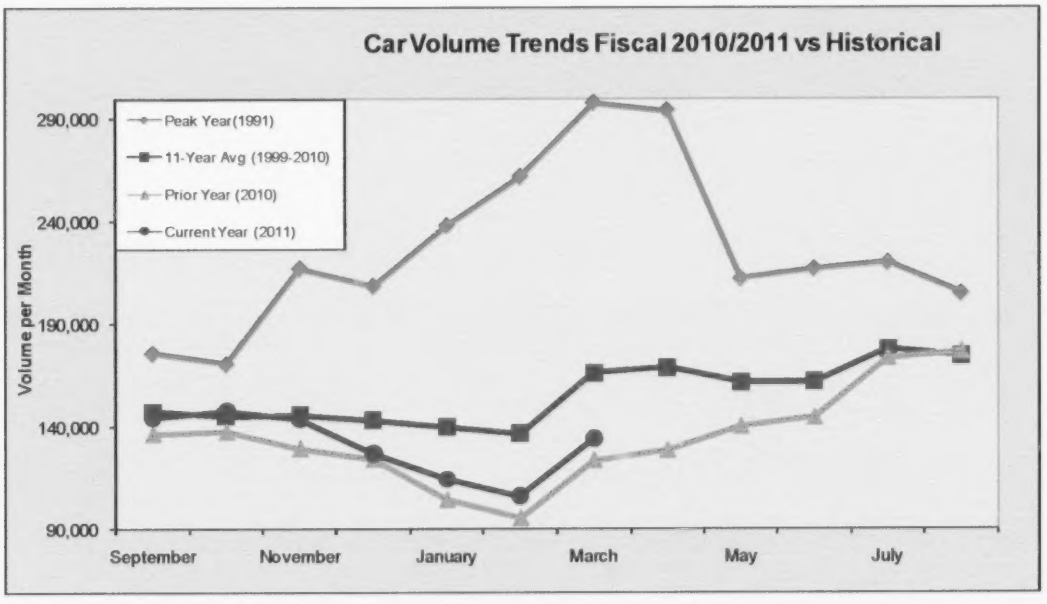
### Financial Effects

Post-recession traffic volumes in fiscal 2009/2010 appeared to indicate that traffic had not only stabilized but that we were trending upwards with trucks increasing by 10.1% and cars increasing by 3.2%. A forecast in last year's corporate plan (2011-2015) for 2011 for a 5% increase in trucks and 1.0% increase for cars appeared to be reasonable. Instead, 7 months into fiscal year 2010/2011 has witnessed a 5.9% decrease in trucks and a surprising 7.6% increase in cars.

Although economic assessments continue to be positive with regard to exports, it appears that such improvements may be more directed towards "East/West" trade rather than the "North/South" Canada-to-United States flow of automotive, machinery and other goods.

There is the possibility that car traffic may continue to accelerate during the summer months if the general public is not subjected to frequent traffic congestions and long lineups along the border. With the Canadian dollar persistently above par of the American dollar an increase in day trips is likely to occur.




The above two charts indicate that, in spite of our considerable efforts, we are struggling to reach the long-term, 11-year average volume of traffic and that it might take some defining event - American plaza expansion or economic boom - to finally achieve that level again. BWBC is also taking into account that even with this "recovery" the manufacturing sector may not return to pre-recession levels as many plants and factories have closed and equipment has been removed. Our forecast is very conservative given the unpredictability of the current economic situation. The forecast will also take into account:

1. The strengthening of the Canadian dollar and its positive impact on Canadian travelers into Michigan offset by the negative impact on American travelers;

2. Continued high unemployment in Michigan and the trend of fewer American travelers;

3. Public perceptions and misperceptions of (a.) passport restrictions (Western Hemisphere Travel Initiative); (b.) increased U.S. and Canadian Customs vigilance at the border, and; (c.) fear of being caught in long lineups on the Bridge spans and approaches.

**Five Year Trend - Westbound - Traffic Volumes**

| | Actual | | | | | Percent Decrease '10 vs '06 | Average Five Year Decline |
|---|---|---|---|---|---|---|---|
| | 2006 | 2007 | 2008 | 2009 | 2010 | | |
| Car/Rvs | 1,860,097 | 1,738,243 | 1,710,939 | 1,562,799 | 1,616,573 | (13.09%) | (2.62%) |
| Trucks | 883,421 | 784,319 | 754,660 | 617,102 | 679,450 | (23.09%) | (4.62%) |
| Total | 2,743,518 | 2,522,562 | 2,465,599 | 2,179,901 | 2,296,023 | (16.31%) | (3.26%) |

Traffic is significantly below fiscal 2005/2006 levels and the current fiscal 2010/2011 year trend for trucks which comprises 75% of toll revenue will be forecasted to continue to dampen revenues. Car traffic is forecast to increase by 7% for the balance of fiscal 2010/2011 in anticipation that traffic congestion will not become an issue and that the Canadian dollar will remain at or above par to the U.S. dollar. Input into these forecasts are received from BWBC Management, BWBC commercial accounts (Trucking firms), Ontario Trucking Association data and various media and manufacturing forecasts.

**Car Volume**

**Corporate Plan Comparative Current (2011-2016) vs (2010-2015)**

*(excluding the year 2016 for comparative purposes)*

| | Forecast Actual 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|---|
| (2010-2015) | 1,562,799 | 1,584,922 | 1,600,772 | 1,616,780 | 1,632,948 | 1,649,277 |
| (2011-2016) | 1,616,573 | 1,733,331 | 1,750,665 | 1,768,172 | 1,785,853 | 1,803,712 |
| Increase | 53,774 | 148,409 | 149,893 | 151,392 | 152,905 | 154,435 |
| | 3.44% | 9.36% | 9.36% | 9.36% | 9.36% | 9.36% |

**Truck Volume**
**Corporate Plan Comparative Current (2011-2016) vs (2010-2015)**
*(excluding the year 2016 for comparative purposes)*

| | Forecast Actual 2010 | Trucks 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|---|
| **(2010-2015)** | 617,102 | 665,864 | 710,583 | 717,689 | 724,866 | 732,115 |
| **(2011-2016)** | 677,685 | 597,430 | 597,430 | 603,404 | 609,438 | 615,532 |
| **Incr.**(Decr.) | **60,583** | -68,434 | -113,153 | -114,285 | -115,428 | -116,583 |
| | **9.82%** | (10.28%) | (15.92%) | (15.92%) | (15.92%) | (15.92%) |

**Capital Spending**

Capital spending is anticipated to be $25.6 million for 2010-11, almost equivalent to $25.8 forecast in last year's corporate plan. No further major capital projects will be undertaken nor estimated at this date pending a comprehensive capital master plan review in June 2011.

**Federal Identity Program**

The President of the Treasury Board and the Minister of Transport, Infrastructure and Communities agreed on an applied title for the organization, Blue Water Bridge Canada, effective September 2007. The website address has been revised to www.bwbc.gc.ca. Stationary, business cards and signage have been altered accordingly. A completely revised and reformatted website has been developed in accordance with Treasury Board standards and is now operational. All of the requirements under this program have now been met.

**Official Languages Act**
All public documents – financial statements, corporate plans and annual reports - are published in both official languages. The BWBC website is Official Languages compliant.

# *Fiscal 2010/2011 Strategic Objectives*

| 2010/2011 Goals | | | |
|---|---|---|---|
| **2010-2011 OBJECTIVES** | **PERFORMANCE TARGETS** | **MEASUREMENTS** | **Status** |
| **Program Action plans, with performance based monitoring and auditing components** | Dashboard Performance Measurement Indicators by April 2010. | **Dashboards for:**<br>**- Capital Projects**<br>**- Customer Relations and Marketing**<br>**- Government Relations**<br>**- Community Relations**<br>**- Employee management action**<br>**- Finance** | **Completed**<br>**Completed**<br>**Completed, Approved**<br>**Completed, Approved**<br>**Deferred**<br>**Deferred** |
| **Financial Controls** | Install Purchase Order Module<br>Install Capital Project Costing Module | **Implementation**<br>**Implementation by Q4 2012/13** | **Completed** |
| **Develop a sustainable development program** | Prepare an outline of program components and associated implementation schedule | **Sustainable development program** | **Environmental Sustainability Policy and Program Paper Drafted** |
| **New Business Revenue Opportunities** | Identification of possible new ventures and new sources of revenue | **Ancillary Revenue Study Report to the Board** | **Completed** |
| **Identification of exposures and risks** | Report to the Board describing the nature and level of exposures faced and insured or mitigated by existing insurance or BWBC policies.<br>Provide recommendations for future action concerning each policy/area of risk. | **Delivery of report**<br>**Delivery of recommendations** | **Completed and approved**<br>**Completed** |
| **Improving Board-CEO Relationship** | Identification of opportunities to build a positive relationship with the CEO.<br>Review formal self-evaluation to identify points of concern & recommendations<br>Review information on education, training and leadership development and consider approval to enroll. | **Identification of opportunities**<br>**Formal report**<br>**Identification of educational, training and leadership development opportunities** | **Completed**<br>**Completed**<br>**Reviewed** |

# *Fiscal 2011/2012 Strategic Objectives*

| 2011/2012 Goals | | | |
|---|---|---|---|
| **2011-2012 OBJECTIVES** | **PERFORMANCE TARGETS** | **MEASUREMENTS** | **Status** |
| **Compliance with Budget 2010 Cost Containment Measures** | Operating Costs to be maintained at 2010-11 Corporate Plan Levels set (April 2010) for 2012 and 2013 | **Expense levels; variance analysis** | |
| **Establish a Revised Master Capital Plan Strategy 2012-2016** | Identification of major capital projects by Fall 2011 | **Formal Report**<br><br>**Action Plan** | |
| **Develop Employee Management Program** | From the employee survey, develop recommendations and action plans to improve the workplace environment | **# of recommendations**<br><br>**# of action plans**<br><br>**# of completions** | |

## Financial Strategies, Assumptions and Budgets

### Increase Productivity & Efficiencies

Modernize and streamline all accounting processes with the review, implementation or upgrading of its accounting systems and the integration with new, non-accounting systems. While some of these projects have been deferred to future years, due to the priorities of dealing with the new federal infrastructure program, the commencement of the $69 million CBA Complex project and reacting to the significant decline in traffic with a major cost-cutting program, the intent is to complete these "deferred" projects in the near future as time and resources permit.

### Improve Accounting and Audit Controls

Continue to strengthen accounting and audit controls with comprehensive continuity schedules and formalized audit trails to ensure proper accounting control and accurate financial reporting.

The IFRS conversion project has been contracted out to a major chartered accounting firm (PricewaterhouseCoopers) and is confirmed by the OAG to be on schedule. However, BWBC is not in a position at this time to convert this corporate plan into an IFRS format with some IFRS issues still to be resolved. The comparative beginning-of-year (2011) restatement is still under review. For the 2012 Annual Report, an audit trail for the IFRS restatement will be provided at that time. The internal audit has been contracted out to Ernst & Young until 2014. The IFRS and internal audit reports produced by the accounting firms have been reviewed by the Office of the Auditor General.

### Ensure Preservation of Capital for Master Plan

Improve the monitoring of cash flow to ensure that the master capital plan will continue to be fully funded from cash generated from operations and existing cash and investment levels. Through the use of an established financial forecast model, current or subsequent year financial analysis as well as 5-year and 20-year outlooks will be dynamically produced in order to provide alternative financial scenarios from which the Board and management can make the most prudent and responsible strategic decisions with regard to cash flow management and the scheduling,

postponement or acceleration of Master Plan projects while ensuring that we will continue to satisfy bond or bank borrowing covenants, where applicable. While a toll rate adjustment is planned for September 2011 (fiscal 2012), as that date approaches, the Board will review and reevaluate the necessity for such a toll adjustment in lieu of increasing other revenues and/or decreasing expenses.

## Consequences of Delaying/Altering Parts of the Master Plan

While the major components of the master plan are expected to proceed as planned to address safety, security, efficiency and environmental issues, regular annual review of these plans by the Board and management are a prudent way to take advantage of perceived economies of scale, lower costs and increase efficiencies at the border. Minor changes and short delays in the projects will not have significant impacts. The injection of the $9.5 million Federal Infrastructure funding to fund $19 million in capital projects has allowed BWBC to expedite capital projects in the Capital Master Plan that we had originally intended to proceed with only in future years. BWBC is prepared and capable of fully financing those portions of the federal infrastructure projects that could not meet the March 31st, 2011 deadline.

## Five-Year Key Planning Assumptions

The corporation has made the following five-year planning assumptions in projecting the major components of its operating budget. Plans to improve revenues and to find efficiencies within expenses are an ongoing exercise for management.

### Revenues

**Toll Revenue**

- Compared to the prior year, commercial volumes will decrease 6.0% in fiscal 2010/2011, stabilize with no growth in 2011 and show a moderate growth of 1% from fiscal 2012/2013 to 2015/2016 based on current year trends and independent auto and trucking industry analytical reports. Toll adjustments of $0.25 per axle are built into the projection figures for fiscal 2011/2012 (September 2011) and depending on the reasonableness of our foreign exchange and truck axle USD/CAD mix assumptions will add approximately $1.2 million in revenue per year or $6.2 million over 5 years.

- Passenger vehicle volumes will increase 7.2% in fiscal 2010/2011 and show a moderate growth of 1% from 2012 to 2016. Toll adjustments of $0.25 are planned for fiscal 2011/2012 (September 2011).

**Foreign Exchange**

- Based on all independent analytical economist and bank reports, the Canadian dollar is predicted to continue its strong performance and be at or above par value with the U.S. dollar. Due to the unpredictability of exchange rates, management prefers to forecast at the current par value level being experienced then identify fluctuations through its regular variance analysis.

**Inflation**

- Based on general expectations (banks, financial analysts) there is an expectation of inflation. For this forecast, a 3% inflation rate will be used for 2012-2016. The March 2010 federal budget stipulated that operating budgets are to be frozen until 2013. Nonetheless inflation is built into the corporate plan numbers and variances to the cost containment measures explained.

Duty Free Store Revenue

- In spite of the marketing and capital commitment efforts by the Duty Free Store revenues continue to decline in 2011 by 3.39%. Moderate improvements are expected in revenue for 2012 through 2016 of 1.0% per year.

Commercial Revenue

- Commercial revenue will increase by 6.6% in 2011 due to the increase in chip truck lease revenue and the annual inflationary adjustment. Lease revenue will increase in 2012 by 11.8% due to the full year effect of the chip truck leases, the contractual increase for the Travel Information Centre rent and the additional rent collected from the commercial brokers as they relocate to the new BWBCC building.

Currency Exchange Revenue

- The strengthening of the Canadian dollar has created a surge in Canadian traveler traffic. The addition of ATM machines, a currency converting machine, Interac debit machines and credit cards has increased the convenience and attracted additional customers. Revenue is expected to increase by 8.0% in 2011, 12.2% in 2012 and 5.0% thereafter due to the above reasons, an additional location within the Travel Information Centre and some additional marketing.

Interest Income

- Directly affected by the levels of cash and investment in place, this income will continue to decrease due to the redemption of investments upon their maturity to fund the $69 million CBA Complex and the $19 million in infrastructure projects. The short and long-term investment portfolios and the Major Maintenance Reserve Fund will be fully depleted by June 2011 as investments mature and are redeemed to match capital expenditures. All future capital projects will have to be funded through continued positive cash flows from operations. As confirmed through the utilization of our comprehensive financial forecast model, the feasibility of funding the Master Plan is reflected in the enclosed financial statements.

- Average interest rates applied on investment and cash holdings are based on the average rate of returns received on the portfolios for the fiscal year 2011. The corporation earns interest at a rate of Canadian Prime less 1% on its general operating account.

## Expenses

With reference to the Federal budget 2010, operating budgets will be frozen at the fiscal 2010-2011 levels for the following two years. The corporate plan complies with this directive, only if depreciation and major maintenance expenses are excluded from the calculations.

Salaries & Benefits

- This will reflect the enclosed staffing projection report and annual base increases of marginally above 1.5%. Overall benefit costs (excluding unfunded employee future benefit liability accruals) will generally trend to be 26.5% of salaries. Future efficiencies and increased productivity in the currency exchange and toll departments are anticipated.

- Over the past four years, as "overhead" staff (ie. Managers and salaried employees) have resigned, positions within their respective departments have been eliminated accordingly and work has been dispersed or redefined in order to improve the productivity of the

organization and to reduce costs. Continuation of this strategy will continue whenever possible.

| | Actual | | Plan | | | | |
|---|---|---|---|---|---|---|---|
| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
| **Full-Time** | | | | | | | |
| Finance & Administration | 8 | 7 | 7 | 7 | 7 | 7 | 7 |
| Currency Exchange | 5 | 4 | 4 | 4 | 4 | 4 | 4 |
| Janitorial | 5 | 5 | 4 | 4 | 4 | 3 | 3 |
| Maintenance | 9 | 9 | 9 | 9 | 9 | 9 | 8 |
| Project Management | 6 | 6 | 6 | 6 | 6 | 6 | 5 |
| Tolls | 24 | 19 | 19 | 19 | 19 | 19 | 19 |
| **Total Full-Time** | 57 | 50 | 49 | 49 | 49 | 48 | 46 |
| **Part-Time** | | | | | | | |
| Finance & Administration | - | 1 | 1 | 1 | 1 | 1 | 1 |
| Currency Exchange | 7 | 6 | 6 | 6 | 6 | 6 | 6 |
| Janitorial | 4 | 7 | 7 | 6 | 6 | 6 | 6 |
| Tolls | 7 | 4 | 4 | 4 | 4 | 4 | 4 |
| **Total Part-Time** | 18 | 18 | 18 | 17 | 17 | 17 | 17 |
| **Total Employees** | 75 | 68 | 67 | 66 | 66 | 65 | 63 |

General & Administrative

- Expenses will decrease by 9.0% with overall cost reductions predominantly with consultants, travel, entertainment and meetings as well as many other accounts. It will increase less than the rate of inflation for 2012 and along inflationary rates thereafter.

Maintenance

- Expenses are based on maintenance schedules and requirements and will fluctuate accordingly. There are deck repair and paving requirements to the bridge spans in 2013.

Interest Expense

- Based on the Bond Principal & Interest Schedule as identified in the Bond Prospectus plus interest from the debt financing required for the CBA and federal infrastructure projects.

## Balance Sheet

Investments & Interest Accrued

- Adjusted to fund the requirements of the Master Capital Plan.

Bonds versus Bank Loan

- The cost-benefit and feasibility of reverting back to a credit facility of a Canadian chartered bank will remain an option to explore. The effect of maintaining the bond issue will continue to be built into this forecast. However a summarized version of the 3 options that had been considered is provided in the Borrowing Plan section. The review and re-justification of the Master Capital Plan merits such a review.

Overdraft/Operating Loan

- Additional debt financing is now in place to finance the balance of the capital projects in 2011. Upon completion of the CBA Building Complex and Federal Infrastructure Projects a fixed term loan of approximately $10 million will be in effect to be paid off by fiscal 2027, the same year as the outstanding bond issue. This fixed term loan is part of the second credit facility previously approved by the Minister of Finance. The borrowing level required will be well within our current lending ceiling of $125 million (including our outstanding bond payable).

Debt Reserve Service Fund

- In accordance with the Master Trust Indenture, on the closing date of the issuance of the bonds, BWBC established a Debt Service Reserve Fund in the amount of $4.5 million. Thereafter the reserve must be at least equal to: (i) fifty percent (50%) of the Debt Service Amount, if the Gross Debt Service Coverage Ratio (GDSR) is less than 2.00:1.00; (ii) twenty-five (25%) of the Debt Service Amount if the GDSR is 2.00:1:00 or greater, but less than 3.00:1.00. In the event the GDSR is 3.00:1.00 or greater, BWBC is not required to maintain a balance in the Reserve Fund. Market value of the fund as at the end of fiscal 2010/2011 will be $3.4 million.

  **Note:** As at August 31, 2011, the GDSR is expected to be 3.92:1.00 and the projected GDSR for 2012 Plan is 3.98:1.00. Since the forecasted ratios for 2012 through 2016 are all over 3.00, all these funds are available to be used immediately to finance capital projects. However, until the forecast model is updated to forecast through to 2027 to prove that the covenant ratio would remain above 3.00, some of these funds will remain in reserve.

Operating and Maintenance Contingency Fund

- In accordance with the Master Trust Indenture, on the closing date of the issuance of the bonds, BWBC established an Operating and Maintenance Contingency Reserve Fund in the amount of $2.0 million. Thereafter the reserve must be at least equal to twenty-five percent (25%) of the Operating and Maintenance expenses incurred by BWBC over the previous twelve (12) month period ending on the last day of most recently completed month. As at February 28th, 2011, the 25% minimum equaled $1.9 million while $2.2 million is expected to reside in the O&M reserve. The ratios are calculated and reviewed quarterly and adjustments to the fund will be made as required. Operating and Maintenance expenses do not include amortization, extraordinary items arising from the early retirement of Borrowings or Subordinated Debt, or the interest on any Borrowings. Market value of the fund as at the end of fiscal 2010/2011 will be $2.2 million.

Major Maintenance Reserve Fund

- Formerly known as the Bridge Painting Fund, BWBC established this reserve in Fiscal 2002. Contributions to the fund were made at BWBC's discretion but with the purpose of reserving funds for major items such as the bridge paintings and joint replacements.

- No further contributions will be made to this reserve and when the existing bonds mature they will be redeemed and not reinvested in order the finance the capital projects in 2011. The market value of the fund as at the end of fiscal 2010/2011will be $1.9 million and is included with Short-term / Long-term investments on the Balance Sheet.

### Capital Spending Budget

BWBC has completed a renewable long-term Master Plan for the Canadian Plaza. The plan is long-term in nature and will provide BWBC with a staged implementation plan for improvements to the Blue Water Bridge border crossing. The critical paths for completion of many of the projects have not been fully defined and as a result the scheduling of the projects will change. Phase I of the Master Plan was initiated in 2004 and will continue through to 2017.

With the **Capital Expenditures 2011-2016** projection, some of the capital spending has been deferred to future years. The timing of the future year's expenditures will change, as more details of the Master Plan are completed. Projects will be undertaken as priorities are identified and as cash flows permit. The values listed for most of the projects include HST. Construction inflation is higher than the inflation applied against our expenses.

BWBC recognized in 2002 that in order to handle the future needs of the border crossing's stakeholders, major changes must be made and made quickly. In order to begin this dynamic process, BWBC completed the issuance of $110 million in bonds. A review of the **Balance Sheet** shows that the Short-and-Long-term investment account balances will be fully depleted by 2011. The remaining balance relates to the investments not yet redeemed in the Major Maintenance Reserve Fund. Analysis of the **Statement of Cash Flows** also indicates that the Cash and equivalents balances will be in an overdraft/fixed term loan position by April/May 2011. As various stages of the Master Plan are implemented the timing of the capital spending will shift in response to cash flows.

| *Capital Spending Projections* | | Prior Years | 2010/2011 Fiscal | 2011/2012 Fiscal | 2012/2013 Fiscal | 2013/2014 Fiscal | 2014/2015 Fiscal | 2015/2016 Fiscal |
|---|---|---|---|---|---|---|---|---|
| CBA Complex | 69,409,008 | 49,639,198 | 19,769,810 | - | - | - | - | - |
| *Federal Infrastructure Program:* | | - | | | | | | |
| Plaza Widening to Highway 402 Widening | 2,831,361 | 2,104,892 | 726,469 | | | | | |
| Dynamic Message Signs Plaza | 1,717,823 | 1,031,979 | 685,844 | | | | | |
| ge Span 2 Infrastructure & System Upgrade | 5,761,346 | 3,654,706 | 2,106,640 | | | | | |
| Customs Primary Inspection Booths | 1,665,800 | 1,050,846 | 614,954 | | | | | |
| Plaza Infrastructure East and North | 3,794,674 | 1,340,522 | 2,454,152 | | | | | |
| Storm Water Pumping Stations | 4,228,996 | 1,500,529 | 2,728,467 | | | | | |
| *Federal Funding of Infrastructure Projects* | (19,900,000) | (2,914,786) | (7,085,214) | | | | | |
| Great Plains Upgrade | 15,000 | - | 15,000 | | | | | |
| Bridge Span 2 Infrastructure (post-FIP) | 2,456,792 | | 2,456,792 | | | | | |
| CBA Building Furniture | 500,000 | - | 300,000 | | | | | |
| CBA Building Equipment, IT | 400,000 | | 400,000 | | | | | |
| Bldg "E" Customs 2ndry & Immigration | 3,998 | - | 3,998 | | | | | |
| Currency Exchange ATM & Software | 150,000 | - | 158,964 | | | | | |
| Construction Equipment | 6,205 | - | 6,205 | | | | | |
| Pickup Truck | 240,000 | - | 40,000 | 40,000 | 40,000 | 40,000 | 40,000 | 40,000 |
| Miscellaneous | 1,100,000 | | 200,000 | 1,000,000 | 1,000,000 | 1,000,000 | 1,000,000 | 1,000,000 |
| *Future Major Capital Projects: to be determined at strategic planning session* | | | | | | | | |
| | 84,281,003 | 57,407,886 | 25,582,081 | 1,040,000 | 1,040,000 | 1,040,000 | 1,040,000 | 1,040,000 |

***Note: the federal funding for infrastructure allows for up to $20 million in capital spending to be spent between April 1st, 2009 and March 31st, 2011.***

## Major Capital Items

### CBA Complex (Customs Commercial/Brokers/Immigration/Agriculture/BWBC Administration Complex)

*{Total Cost $69.4M covering years 2008-2011}*

This major complex will consist of office and secondary inspection space for a series of integrated functions including the Commercial Operation (trucking) portion of the

Canada Border Services Agency, the Canadian Food Inspection Agency and various Customs Brokers. A preliminary review of the Master Capital Plan identified cost savings by adding a 4th floor for the BWBC Administration offices instead of having a separate building for BWBC administration. It will also include primary inspection booths, a canopy, and truck compound designed to accommodate Vehicle and Cargo Inspection System (VACIS). The complex will have a direct connection to the truck ramp which accesses Highway 402 eastbound. It replaces and consolidates these functions, currently situated at various locations around the plaza. The relocation is necessary to accommodate the new plaza design.

**Infrastructure Projects:**

*(Total Cost $20M for the years 2009 -2011; Federal funding $10.0 million)*

**The Blue Water Bridge Canadian Plaza and Bridge Enhancement Project:**

This project includes the installation of various types of signs, displays including LED signage to provide real time, way finding and directional information to travelers; the electrical, communications, lighting and signage infrastructure to the plaza future new facilities, including new outbuildings and new utility grid feeders to each portion of the plaza and emergency back-up generation systems; plaza drainage and storm water pump stations, reconstruction of pavement structures, barrier walls, extension of existing parking lots, controlled access devices, primary inspection booths and plaza widening to accommodate the Highway 402 widening; relocation of the electrical and communication duct bank presently located in the concrete sidewalk on Span 2 to the underside of the bridge structure; the upgrading of the communication cabling scheme to an optic fibre air-blown system that will allow for future expansion of the system.

## ASSESSMENT OF FORECASTED RESULTS

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Except where otherwise indicated, all financial information reflected herein is expressed in Canadian dollars and determined on the basis of Canadian generally accepted accounting principles.

| FINANCIAL RESULTS | 2011 (Forecast) | 2010 (Actual) |
|---|---|---|
| ( In thousands of dollars ) | $ | $ |
| Revenues | 19,141 | 21,316 |
| Operating expenses | 20,442 | 18,842 |
| Operating income | -1,301 | 2,474 |
| Operating income/revenues | (6.8%) | 11.6% |

**Introduction**

The following analysis reviews the operations for the fiscal years ended August 31, 2011 (forecast) and 2010 (actual).

**Revenues**

Revenues are derived from four primary sources: tolls and services, rents, currency exchange operations and interest and sundry income.

**Tolls and Services Revenues**

Forecasted tolls and services revenues will decrease by 10.4% during 2011 compared with 2010 revenues. Last year's recovery from the recession has stalled with regards to exports crossing into Michigan with truck traffic decreasing by 6.0% in 2011 and the continued strengthening of the Canadian dollar affecting the value of the tolls collected from all vehicles. Car revenue will only partially offset the decrease in truck revenue with a predicted 7.2% increase primarily due to the increase in Canadian travelers with the dollar at par with the U.S. dollar.

Tolls and services revenues from commercial vehicles will represent approximately 68.6% of all tolls and services revenues in fiscal 2011, (72.7%-2010), with revenue from passenger vehicles making up most of the balance remaining. Due to the strengthening of the Canadian dollar exchange rate losses of $72 thousand will occur by the end of 2011 ($20 thousand loss in 2010).

**Rental Revenues**

Rental property revenues will account for approximately 12.9% of all revenues in 2011 (11.6% - 2010). The most significant portion is derived from the rental of the duty-free shop to a private operator, with rent dependant in part upon the gross revenues of the operator.

**Currency Exchange Operations**

BWBC operates a currency exchange, with its primary customers being travelers coming from and going to the United States. Revenue from currency exchange operations will be approximately 5.8% of total revenue in 2011 (5.9% - 2010).

**Interest and Sundry Revenue**

The balance of revenue is derived from investment of surplus cash and monies set aside in restricted funds.

**Expenses**

Operating expenditures are incurred in five main areas: general and administrative expense, human resources, interest on long-term debt, maintenance and other expenses and amortization.

General and administrative expenses include consulting and other professional fees, public relations, office, insurance, municipal taxes and miscellaneous expenses.

Human resources include salaries and wages paid to toll collectors, accounting, administrative, currency exchange employees, maintenance, janitorial and project management staff. Employee benefits include statutory benefits, vacation pay, employee pension, health benefits, life insurance, an unfunded employee future benefits liability accrual and some other miscellaneous benefits and represents 24.9% of total human resource costs (24.1% - 2010).

For the year 2011, interest on long-term debt relates solely to the bond debt of $91.2 million (balance as at August 31, 2010).

Maintenance and other expenses include maintenance supplies and services, road, building and bridge repair, snow removal and landscaping.

Amortization includes amortization on property, plant and equipment and on deferred bond financing charges.

**Factors Affecting Operating Income**

The profitability of BWBC is affected by a number of factors, including seasonality, fluctuating exchange rates, the strength/weakness of both the U.S. and Canadian economies and in more recent years, tourism in the Point Edward and Sarnia areas. If the general public perceives that they will regularly encounter lengthy delays whenever they might prefer to cross the border they will delay or cancel their intended trips.

Profitability is largely dependent upon strong economies in both the U.S. and Canada. When the U.S. economy is expanding, exports of Canadian products tend to rise. An expanding Canadian economy will also result in an increase in the flow of goods and services across the border. With the Blue Water Bridge being one of the major international crossings in North America, its revenues and thus its profitability improves with the increase in activity.

Seasonality is also a factor in the profitability of BWBC. While truck traffic tends to be fairly steady throughout the year, car traffic is at its heaviest during the months of May to October, which is traditionally the vacation period in North America. While car volumes are forecasted to increase in 2011 due to the strengthening of the Canadian dollar, truck volumes are expected to continue in decline from 2010 levels due to a weak economic recovery especially for the auto and manufacturing related industries.

Sales volumes at both the duty-free shop and currency exchange have a direct relationship with changes in the Canadian dollar and with traffic volumes at the Blue Water Bridge. The significant strengthening of the Canadian dollar is having a dampening effect on the proportion of Americans coming into Canada. Although this very same factor would make it logical to expect more Canadians to cross over into the United States, while there has been a moderate increase in the level of Canadian traffic, there is not enough to compensate for the decline in American traffic. This appears to be primarily due to the Canadian (& American) general public perception that they will be unnecessarily delayed at the border as a result of increased security inspections and lack of infrastructure on the American plaza side.

Increased sales activity as a result of increased traffic volumes translates into additional rental income to the Blue Water Bridge. Similarly, increased activity at the currency exchange results in additional revenues and, with expenses relatively fixed an increase in net income.

The strength of the Canadian dollar also has a direct influence on the income of the duty-free store and the currency exchange operations. With the Canadian dollar at or exceeding par value with the American dollar a surge of Canadian day-trippers is occurring at the border.

**Period over Period Comparisons**

**Years ended August 31, 2011 and 2010**

**Revenues**

Revenues from tolls and services are forecasted to decrease to $15.2 million in fiscal 2011 from $16.9 million in the preceding year.

Truck toll revenue will decrease from $12.3 million in 2010 to a forecasted $10.4 million in 2011. This represents a decrease of 15.1% which results from a 6.0% decrease in commercial volume in 2011. Forecasted revenue from passenger car tolls will increase from $4.7 million in 2010 to $4.8 million in 2011. This represents an increase of 1.0% in revenue, which results from a 7.2% increase in car volume in 2011. Part of the decline in toll revenue is due to the strengthening of the Canadian dollar by approximately 5 cents which translates into a negative effect on revenue by approximately $0.2 million.

Rental revenue will remain at the same level as that of the prior year $2.5 million. The decline in duty free store revenue will be offset by the increase in chip truck revenue. Interest income will

decrease from $0.9 million in 2010 to $0.4 million in 2011 due to the redemption of investments upon their maturity to fund the capital projects program and due to the lower interest rates received upon shorter-term reinvestment of redemptions and on U.S. cash balances held by BWBC.

**Expenses**

Forecasted total expenses will increase from $18.9 million in fiscal 2010 to $20.4 million in 2011.

General and administrative expenses are forecasted to remain at the same level in 2011 from prior year at $1.7 million.

Expenditures on human resources are forecasted to decrease from $5.1 million in 2010 to $4.8 million in 2011 primarily due to the capitalization of project department salaries and benefits applied against the CBA Complex building and federal infrastructure projects partially offset by the increase in toll department scheduled hours and the additional overtime required for snow removal and site inspection of the capital projects.

Interest expense will remain at the same level in 2011 from 2010; the interest expense decrease applicable to the declining bond payable balance is equally offset by the interest expense on the bank credit facility.

Maintenance and other expenses are forecasted at $1.7 million in fiscal 2011, $0.2 million higher than occurred in 2010 due to required repairs to the two bridge spans, additional bridge inspection costs and landscaping work.

**Cash Flow**

The net cash position will decrease by $13.0 million. Cash from operations is expected to be $5.3 million along with receipt of a $10 million loan, a net redemption in investments of $9.3 million and collection of receivables of $1.0 million to be more than offset by $25.6 million in capital projects, payment of construction related payables (including holdbacks) of $9.5 million, a 3.1 million pay down of the bond principal and a $0.4 million increase in restricted bond reserve funds.

While there appear to be net losses identified for 2010/2011 through to 2013/2014 this is substantially due to the increase in non-cash depreciation. This should not be problematic due to the long-term nature (40 or 50 years or more) of the capital assets recently built over the past fifteen years and the potential with BWBC's excess capacity to encourage and process a significant amount of additional traffic if its efforts within the general strategies identified in this document are productive. Optimally, any closer integration with our counterparts at MDOT or change in governance to a single entity, bi-national model will have a significant positive effect on BWBC's bottom line.

**Capital Program**

Capital additions in the 2010 fiscal year are forecasted to be $25.6 million, of which the major contributors for the year are the CBA Complex Plaza Improvements and the Federal Infrastructure projects.

## Blue Water Bridge Canada

## Summary of Financial Results

| | Actual | Forecast | Plan Period | | | | |
|---|---|---|---|---|---|---|---|
| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
| ( In Thousands ) | $ | $ | $ | $ | $ | $ | $ |
| **Statement of Operations** | | | | | | | |
| Revenue | | | | | | | |
| Tolls and Service Revenue | 16,910 | 15,155 | 16,373 | 16,535 | 16,699 | 16,866 | 17,034 |
| Other | 4,406 | 3,986 | 4,108 | 4,199 | 4,315 | 4,396 | 4,523 |
| | 21,316 | 19,141 | 20,481 | 20,734 | 21,014 | 21,262 | 21,557 |
| Expenses | 18,842 | 20,442 | 24,601 | 23,437 | 21,825 | 21,221 | 20,669 |
| Net Income | 2,474 | (1,301) | (4,120) | (2,703) | (811) | 41 | 888 |
| **Balance Sheet** | | | | | | | |
| Assets | | | | | | | |
| Current | 23,715 | 3,793 | 4,347 | 5,254 | 7,389 | 9,231 | 11,382 |
| Long-term Investments | 3,341 | - | - | - | - | - | - |
| Property, Plant, Equipment | 162,169 | 181,597 | 173,534 | 166,489 | 159,929 | 153,938 | 148,455 |
| Restricted Assets | 5,160 | 5,590 | 5,670 | 5,592 | 5,451 | 5,625 | 5,555 |
| Total Assets | 194,385 | 190,980 | 183,551 | 177,335 | 172,769 | 168,794 | 165,392 |
| Liabilities and Equity | | | | | | | |
| Current | 15,381 | 6,277 | 6,438 | 6,634 | 6,843 | 7,064 | 7,302 |
| Employee Future Benefits Liability | 4,140 | 4,555 | 4,982 | 5,421 | 5,874 | 6,340 | 6,821 |
| Long-term debt - Bank Loan | - | 9,875 | 9,482 | 9,066 | 8,625 | 8,156 | 7,658 |
| Long-term debt - Bond Issue | 88,113 | 84,823 | 81,319 | 77,587 | 73,611 | 69,377 | 64,866 |
| Equity | 86,751 | 85,450 | 81,330 | 78,627 | 77,816 | 77,857 | 78,745 |
| Total Liabilities and Equity | 194,385 | 190,980 | 183,551 | 177,335 | 172,769 | 168,794 | 165,392 |
| **Statement of Cash Flows** | | | | | | | |
| Operating Activities | | | | | | | |
| Net Income | 2,474 | (1,301) | (4,120) | (2,703) | (811) | 41 | 888 |
| Non-Cash Items | 4,699 | 6,569 | 9,530 | 8,524 | 8,053 | 7,498 | 7,004 |
| Changes in Working Capital Items | 29,399 | (2,349) | 944 | (103) | 1,153 | (57) | (59) |
| | 36,572 | 2,919 | 6,354 | 5,718 | 8,395 | 7,482 | 7,833 |
| Investing Activities | | | | | | | |
| Proceeds on disposal | - | - | - | - | - | - | - |
| Purchase of Property, Plant, Equipment | (36,395) | (25,582) | (1,040) | (1,040) | (1,040) | (1,040) | (1,040) |
| (Increase) Decrease in Long-term investments | 4,777 | 3,341 | - | - | - | - | - |
| (Increase) Decrease in Restricted Assets | 3,017 | (429) | (81) | 78 | 140 | (174) | 69 |
| Financial Activities | (2,900) | 6,786 | (3,682) | (3,920) | (4,174) | (4,444) | (4,732) |
| | (31,501) | (15,884) | (4,803) | (4,882) | (5,074) | (5,658) | (5,703) |
| Cash and Cash Equivalents | | | | | | | |
| Increase ( Decrease ) in Cash | 5,071 | (12,965) | 1,551 | 836 | 3,321 | 1,824 | 2,130 |
| Balance at Beginning of Year | 8,890 | 13,961 | 996 | 2,547 | 3,383 | 6,704 | 8,528 |
| Balance at End of Year | 13,961 | 996 | 2,547 | 3,383 | 6,704 | 8,528 | 10,658 |

**Blue Water Bridge Canada**

**Summary of Operating Budget**

**Statement of Operations**

| For the Years Ending August 31 | 2009-2010 Actual | 2010-2011 Budget | 2010-2011 Forecast | 2011-2012 Budget |
|---|---|---|---|---|
| ( In Thousands ) | $ | $ | $ | $ |
| Revenue | | | | |
| Tolls and Service Revenue | 16,910 | 17,955 | 15,155 | 16,373 |
| Other | 4,406 | 4,315 | 3,986 | 4,108 |
| | 21,316 | 22,270 | 19,141 | 20,481 |
| Expenses | | | | |
| Interest on long-term debt - Bond Issue | 5,959 | 5,769 | 5,769 | 5,566 |
| Human Resources | 5,103 | 5,208 | 4,841 | 5,171 |
| Amortization | 4,588 | 6,495 | 6,154 | 9,104 |
| General and administrative | 1,730 | 1,557 | 1,727 | 1,572 |
| Maintenance & other expenses | 1,462 | 1,207 | 1,746 | 2,606 |
| Interest on long-term debt - Bank Loan | - | 76 | 199 | 582 |
| (Gain) loss on disposal of assets | - | - | 6 | - |
| | 18,842 | 20,312 | 20,442 | 24,601 |
| Excess of revenues over expenses | 2,474 | 1,958 | (1,301) | (4,120) |

## Blue Water Bridge Canada

## Summary of Capital Budget

| For the year ending August 31 | 2010-2011 Forecast | 2010-2011 Budget | 2011-2012 Budget |
|---|---|---|---|
| **Capital Spending** | | | |
| (in thousands) | $ | $ | $ |
| Canadian Plaza Improvements CBA Complex | 19,770 | 18,418 | - |
| *Federal Infrastructure Program:* | | | |
| **BWBC Plaza and Bridge Enhancement** | 9,317 | 13,266 | - |
| *Federal Funding of Infrastructure Projects* | (7,085) | (6,412) | - |
| Great Plains Upgrade | 15 | - | - |
| Bridge Span 2 Infrastructure | 2,457 | - | - |
| CBA Building Furniture | 300 | - | - |
| CBA Building Equipment, IT | 400 | - | - |
| Bldg "E" Customs Secondary & Immigration | 4 | - | - |
| Currency Exchange ATM & Software | 159 | - | - |
| Construction Equipment | 6 | - | - |
| Geographic Information system | - | 60 | - |
| Accounting Software Systems | - | 20 | - |
| Administration Software Systems | - | - | - |
| Administration Office Furniture - CBA Building | - | 300 | - |
| Currency Exchange ATM Machines | - | - | - |
| NEXUS Bypass Lane | - | - | - |
| *Autos, Trucks & Construction Equipment:* | | | |
| Loader Truck | | | - |
| Pickup Truck | 40 | 40 | 40 |
| **Miscellaneous** | 199 | 60 | 1,000 |
| | 25,582 | 25,752 | 1,040 |